

12/24/41

(This was in connection with the work on the Budget  
message)

FROM THE DESK OF  
LEON HENDERSON, ADMINISTRATOR  
OFFICE OF PRICE ADMINISTRATION  
AND CIVILIAN SUPPLY

12-24  
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Dear Mr. Secretary -

I just cannot find  
time to be present -  
tho I'm enormously appreciative  
of your courtesy. I have  
the two rationing + several  
other matters I must finish  
by noon.

Merry Xmas!

Leon

December 24, 1941  
10:15 a.m.

RE PRESIDENT'S BUDGET MESSAGE

Present: Mr. Foley  
Mr. Kades  
Mr. Bean  
Mr. Bell  
Mr. Morris  
Mr. Ransom  
Mr. Paul  
Mr. Goldenweiser  
Mr. Gaston  
Mr. Haas  
Mr. Blough  
Mr. White  
Mr. Currie  
Mr. Gilbert  
Mr. Kuhn

H.M.JR: The reason I asked you gentlemen to come here to help us is that we are trying to draft a tax and fiscal message for the President and the enormity of it appalled me when I saw the figures; and we have two sections here, one on the taxes and one on the raising of the money. I don't know whether those gentlemen who, I guess, have seen it in advance --

MR. RANSOM: This morning.

H.M.JR: Have you?

MR. PAUL: What you have has been revised somewhat.

H.M.JR: So I think on the tax thing I will ask Mr. Paul to read a page at a time or wherever there is a good place to break and then we will stop for discussion, if that is agreeable, and then after that Mr. Bell will read

the part that has to do with the raising of the money.

MR. BELL: It doesn't amount to much now. It is shortened.

H.M.JR: You mean the raising of the money?

MR. BELL: No, that part in the budget message. It has been reduced to a minimum.

(Mr. Foley and Mr. Kades entered the conference.)

H.M.JR: We need a couple of good lawyers, present company excepted, other than tax lawyers. I needn't say that this is unusually confidential, because this is something which is the property of the President. What we are doing goes to him and his budget message, he guards that almost as closely as Mr. Churchill's arrival. Not quite, but almost. All right, Randolph.

MR. PAUL: "Victory in this war will demand expenditures on a scale for which there is no precedent in our history. Victory will call for sacrifices--real and stern sacrifices--on the part of every American, irrespective of occupation or income. If we are to furnish the weapons to the men who are doing the fighting, we shall have to exert every possible ounce of energy, and we shall have to mobilize every possible dollar of our income.

"The material resources we need for victory will be supplied, whether guns or dollars. The task is huge, but it is within our powers.

"Until this job is done, we will not talk of burdens -- of tax burdens or debt burdens. Instead we will talk of opportunity -- the opportunity to have a real part in the fight to preserve our freedom.

"This is the spirit in which the American people will want us to approach the problem of financing the war."

H.M.JR: Do you want to pause there?

MR. PAUL: That is a good place to pause.

MR. RANSOM: No comments on that, Mr. Secretary.

H.M.JR: Well, I can comment like you people did because I didn't write it. I can say it is very good.

MR. RANSOM: It is very good indeed.

MR. CURRIE: A very minor point, Mr. Secretary; in the second paragraph, "the material resources will be supplied, whether guns or dollars." Usually you mean by material resources the guns and then the dollars can also be supplied.

MR. BELL: You could strike out "material."

MR. PAUL: If dollars aren't material --

MR. BELL: Strike out "material."

MR. PAUL: No, you can't do that because one of the resources we have to supply is men.

MR. WHITE: Why not put "sinews," then, the sinews of war that we need for victory.

MR. PAUL: That would be all right.

MR. GOLDENWEISER: If I may make a suggestion, in the first paragraph I think it would strengthen that if you say we shall have to exert all our strength instead of "every possible ounce of energy," because "every possible ounce of energy" is a kind of a bad phrase.

MR. PAUL: I agree. That follows Mr. Currie's criticism of the other day. Shall I go on with the next page?

H.M.JR: Will you please?

MR. PAUL: "Let me state briefly the basic objectives which I think should guide us in the formulation of a fiscal program for the war.

"1. The revenue of the Government must be greatly

increased to meet war expenditures. The maximum possible portion of the war cost must be met from taxation.

"2. Inflation must be curbed.

"3. The financial sacrifice must be equitably distributed.

"4. Undue profits during wartime must be taken by the Government.

"5. More flexibility should be introduced into our fiscal measures during the emergency.

"6. Our fiscal policy must be directed toward the achievement of maximum war production."

I think that is a good place to stop.

MR. WHITE: On the first page you said you weren't going to speak of sacrifices. On the second page you speak of the financial sacrifices. There may be a long distance between --

MR. PAUL: We tried to get another word there, and if you can give us one I would be glad to have it, but we couldn't get a better word. Viner and I agreed at 4:30 last night that we couldn't.

MR. WHITE: "Financial cost."

MR. PAUL: Cost? All right.

MR. GOLDENWEISER: Either cost or effort.

MR. RANSOM: Financial contributions.

MR. CURRIE: I think you had better change the first because later on in page five you talk a great deal of sacrifice. The equitable distribution. So you can change this first page by saying that this does involve sacrifice but the sacrifice is also an opportunity. If you look at that in another way it is an opportunity to play a real part.

MR. GASTON: Well, on the first page you speak not of a burden but of a sacrifice, making a distinction between the two words.

MR. CURRIE: I am just making it consistent by saying that this is an opportunity but looked at from another point of view, it is also an opportunity. Then you are not inconsistent later on in talking about sacrifices.

MR. PAUL: I don't think it is so inconsistent with the first page. We talk of burdens there.

MR. CURRIE: The only inconsistency is the statement that you will not talk of burdens. Then you go on and talk about them.

MR. BLOUGH: Sacrifices are burdens. In the third line of the first page you say it will take sacrifices.

H.M.JR: Well, Paul has got the idea. He can decide what he wants to do with it.

MR. RANSOM: I don't like the word "sacrifice" because I think that to me implies something beyond what is meant. I would have in mind that you mean a contribution, which is something that you do with pleasure rather than a sacrifice, which seems to have a tinge of regret attached to it.

MR. PAUL: Of course that is what is meant by that third paragraph.

MR. RANSOM: Yes.

MR. BELL: Number four on page two, to come back to that old word again, I don't like the word "taken."

MR. PAUL: I don't either. I like the word "recaptured" but the Secretary doesn't, so I couldn't get any other word.

H.M.JR: How about "absorbed"?

MR. BELL: Could you use the word "used"?

H.M.JR: "Absorbed."

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MR. PAUL: Do you want to use the word "absorbed," alone, or "absorbed by the Government"?

H.M.JR: "Must be absorbed by the Government."

MR. BELL: Or "must be available to the Government, either in one form or another."

MR. PAUL: "Absorbed" is better.

MR. WHITE: Is a gradual process.

H.M.JR: It is a first cousin to "mop up."

MR. PAUL: All right. I think it is a good word.

MR. BELL: I wouldn't use that either. That has caused us a lot of trouble too.

H.M.JR: Is that all right with you, "absorb"?

MR. PAUL: "Absorb" is a better word than I would have been able to think of.

H.M.JR: All right.

MR. PAUL: "Taxes. 1. The Need for Additional Taxes.

"In the past 18 months this Nation, while building up its defenses, laid the foundation for a mighty structure of arms production.

"In the fiscal year 1941 defense expenditures amounted to \$6.3 billion. We expect to spend upon our war efforts \$22 billion in the fiscal year 1942 and \$50 billion in the fiscal year 1943.

"In the fiscal year 1941 Federal net receipts were \$7.6 billion. These are expected to be \$11.9 billion in the fiscal year 1942 and, if there are no changes in our tax structure, \$16.5 billion in the fiscal year 1943.

"Thus it is estimated that the net deficit will be \$16 billion for the current fiscal year, and, if no new

taxes are enacted, \$40 billion for the fiscal year 1943.

"In these estimates allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit.

"The disparity between estimated revenue and estimated expenditure is far too great for a sound fiscal program. We must have additional taxes."

MR. MORRIS: If no new taxes are enacted, won't that also apply to the current fiscal year? Shouldn't that go in, "it is estimated that if no new taxes are enacted, the net deficit--" you would get some new taxes in this fiscal year, won't you?

MR. WHITE: Particularly if they are going to be advanced payments.

MR. GASTON: Only if they were advanced payments, only if they were current withdrawals. Otherwise they would all come beginning March of '43.

MR. MORRIS: Well, we don't know which it is, so can't you say, "if no new taxes are enacted"?

MR. PAUL: Where is that?

MR. MORRIS: "Thus it is estimated that if no new taxes are enacted the net deficit would be sixteen billion for the current year and forty billion for fiscal '43."

MR. WHITE: That leaves your hand freer.

MR. GOLDENWEISER: You mean in transposition of the new taxes further up?

MR. MORRIS: Yes, that is all. Just transpose that one thought.

MR. PAUL: I have got it. Shall I go on?

MR. GOLDENWEISER: May I raise one more question? I

wonder whether you want to say in your last paragraph, "a sound fiscal program"? Sound fiscal program doesn't quite sound like the thing you want to talk about.

MR. WHITE: I agree with you. A sound fiscal program may involve, under the circumstances, a lot of borrowing. In fact, we are not unsound merely because we have to resort to --

MR. GOLDENWEISER: I think you can just - if you just put a period after "great" and take those last five words out, it would be all right.

MR. WHITE: Balanced fiscal program?

H.M.JR: How would you have it read, Dr. Goldenweiser?

MR. GOLDENWEISER: I suggest just leaving those words out so it would be the disparity between estimated revenue and estimated expenditures is far too great. We must have additional taxes.

MR. PAUL: I think that is good.

MR. GASTON: I think that strengthens it.

MR. PAUL: I will go on then if nobody has anything else.

"2. The Menace of Inflation.

"Additional taxes are needed to combat inflation.

"As we approach full utilization of our productive resource any considerable rise in prices would be an unqualified evil."

Is that too much a dollar-seventy-five word?

H.M.JR: No, that is all right.

MR. PAUL: "Inflation is a source of grave social injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consider-

ation of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention."

I think I might go through this page on inflation.

"The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Another part of such a program might be expansion of the social security system, which at a later date I intend to recommend for other and more basic reasons. Price control, allocations and rationing are other parts of such an integrated program."

MR. RANSON: Mr. Secretary, may I make a suggestion at that point, before you go to the rest of this page? I think in light of the fact that the President issued an order for the regulation of consumer credit and installment credit and that we are in the midst of trying to regulate that, that it would be tremendously helpful if a very brief reference to that mechanism of control could be inserted at this point. The public relations of it would be tremendously improved, and I would like, if it doesn't throw out the context too much --

MR. PAUL: I would like to get, if you wouldn't mind, just what your wording - where you figure it ought to go.

MR. RANSON: Yes, "price control, allocations, rationing, and the control of consumer installment credit." It is the last of all of these - it is the tail end of the whole program.

MR. GOLDENWEISER: Wouldn't you rather see regulation and control?

MR. RANSON: Regulation, yes.

MR. GOLDENWEISER: Regulation of consumer credit.

MR. RANSOM: "And the regulation of consumer credit" would serve my purpose.

H.M.JR: Just the regulation of consumer credit?

MR. PAUL: Not installment, just consumer credit?

MR. RANSOM: Yes, that is what the Executive Order calls it.

H.M.JR: I am being humorous now. Do you want to add, "which is being conducted by the Federal Reserve Board, the Acting Chairman, Mr. Ronald Ransom"?

MR. RANSOM: I would rather not. The more obscure I can remain in that situation the safer is my life.

H.M.JR: I just wondered how proud you were of it.

MR. RANSOM: I am not at all proud of it, Mr. Secretary. It is a job and a difficult one, and we are trying to do it to the best of our ability.

H.M.JR: Well, I am being --

RANSOM: It is full of problems and it is highly experimental, but we are up against a technical aspect of it right now which might be tremendously aided by such a mention.

H.M.JR: It should be.

MR. RANSOM: The regulation of consumer credit would be all that I would suggest.

H.M.JR: It is in, isn't it, Randolph?

MR. PAUL: It is in.

H.M.JR: O.K.

MR. PAUL: "All these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly,

the effectiveness of the fiscal devices in preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

"3. Equitable Distribution of Taxes.

"With far heavier taxes the need for equity in the tax system becomes more urgent.

"In this war it will be necessary to tax more heavily all sections of the population who are above the subsistence level. All able to bear them will have to make sacrifices. But the fact that large additional taxes have to be imposed should not lead us to forsake the principle of taxing according to ability to pay.

"I have frequently pointed out that there are numerous loopholes in the present tax structure which ought to be closed. Because some taxpayers use these to avoid taxes, the other taxpayers must pay more than they should. We can no longer tolerate these loopholes.

"Our tax laws contain a number of unintentional technical inequities--unfair discriminations between different persons who are substantially alike and should be treated equally."

(The Secretary held a telephone conversation with Miss Grace Tully, as follows:)

H.M.JR: That was Grace Tully. She says the President will not look at this until the show is over. So if you get it over this afternoon, it will be plenty of time. Go ahead, Randolph.

MR. PAUL: "These technical inequities are always objectionable, but now when taxes are being increased, it is urgent that the Government should, to the greatest extent possible, provide relief from them."

I think I ought to stop there for a moment.

H.M.JR: Either this is so well written or else somebody has prepared everybody --

(Mr. Louis Bean entered the conference.)

MR. RANSOM: Can I go back to the third page and ask Mr. Paul a question? The first line at the top of that page, the word "ability" is used. I am not sure that I understand just what is meant by the use of that particular word. "The hardships of inflation strike at random, without consideration of equity or ability."

MR. PAUL: Well, the word has a sort of mixed meaning in our minds. It has reference to ability to bear the hardships, for instance. I think that is the principal meaning.

MR. WHITE: A regressive tax. Inflation is a regressive tax. It is the lower - it hits the lower income classes harder than the upper.

MR. RANSOM: It means the ability to bear it.

MR. PAUL: That is right.

MR. RANSOM: I have no other suggestions.

MR. GOLDENWEISER: May I make a suggestion on this page five?

MR. PAUL: Certainly.

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MR. GOLDENWEISER: In the second paragraph. The last sentence which said that the fact that large additional taxes have to be imposed should not lead us to seek the principle of taxing according to ability to pay. It seems to me that that is weak even to suggest that that - that anybody would suggest it. It seems to me it ought to go the other way. The fact that large additional taxes must be imposed makes it more imperative than ever to follow the principle of taxing and so on.

MR. PAUL: I think that is a fine suggestion. If nobody has any more, I will go on with page six.

"It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a wartime economy, the country cannot tolerate unduly high profits for business concerns. Wherever these occur, they should be recaptured.

"5. Flexibility in the Tax System."

MR. WHITE: Does that imply that for some individuals you can tolerate unduly high profits?

MR. RANSOM: Well, "concerns" is a word that means more than corporations, and I think that is all right.

MR. CURRIE: You can leave out business concerns without affecting the meaning.

MR. FOLEY: Harry would put the period after profits.

MR. BEAN: Do you need the word "unduly"?

MR. RANSOM: Yes, that is a key word.

MR. BEAN: Why?

MR. PAUL: Because it is a weasel word. We don't want to define it at this moment.

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MR. BEAN: If you leave out the word "unduly" you still have, "cannot tolerate high profits."

MR. WHITE: It is a major point of policy there. Bean's point is, aren't all high profits unduly high during an emergency.

MR. RANSOM: Mr. Secretary, Mr. Paul admits that "unreasonable profits" and "unduly high profits" are both weasel expressions. I won't say what I intended to say, because perhaps the necessity of the situation requires you to be slightly on that side of the statement.

MR. PAUL: Well, we are trying to keep the door open for a decision along the broad pathway as to what kind of excess profits taxation we are going to recommend.

MR. RANSOM: Of course, I have a feeling of my own that the irreducible minimum of profit resulting from any response to the need for furnishing the Government with the necessities of war is entirely null; but I think it may be wise in a document of this kind not to be too specific at this time.

MR. PAUL: I think meeting the suggestion from over there we might change this line four and use the same expression we had in the heading, "Cannot tolerate undue profits" and leave out the word "high." Would that suit you?

MR. BEAN: I think that would meet my point.

H.M. JR: Just think of whether instead of the word "unduly" you want to use the word "excessive."

MR. BELL: We had that once, didn't we?

MR. PAUL: We had "excessive" once.

H.M. JR: Just put it down and you can toy with it afterward and decide which you like.

MR. BEAN: "Excessive" has more connotations.

MR. FOLEY: I think "excessive" is better than "undue."

H.M.JR: Well, you can decide afterward.

MR. RANSOM: I hope it will be made as tight as possible.

H.M.JR: Personally, I prefer "excessive," but you decide afterward.

MR. PAUL: "Flexibility in the Tax System.

"The rate of war expenditure, the size of the national income, the course of prices, and the extent and effectiveness of allocations and other controls are not subject to accurate estimate far in advance. It is therefore impossible to determine now precisely how much additional taxes should be collected during the next eighteen months. This is true even though there can be no dispute that the needs will be great. It is, accordingly, important that the Congress realize the tentative character of all estimates here presented, and that it give consideration to the desirability of introducing into its tax legislation provisions which will make possible quick adjustments in the timing of tax collections or in tax rates during the period when rapid changes in the fiscal and economic situation are likely to occur."

MR. WHITE: Shouldn't that last phrase possibly be "when rapid changes in the fiscal and economic situation are occurring"? They are occurring right now.

MR. PAUL: I think that is a good idea.

MR. GOLDENWEISER: In the fourth line of that paragraph, couldn't you change that to read that controls cannot be accurately estimated far in advance, rather than "are not subject to accurate estimate"?

MR. WHITE: Yes, that is better.

MR. PAUL: I think that is better.

MR. KADES: Randolph, could you say "tax rates and collections" instead of "or"?

MR. PAUL: Yes. Maybe we ought to put that around the other way, too, rates first.

MR. KADES: Yes.

MR. PAUL: "6. Relation of Production and Victory.

"In wartime when the life of the Nation is at stake the sound fiscal policies are those which will help win the war. Sound war taxation not only must contribute to defraying the cost of weapons, but it should facilitate their production in every possible way.

"In a war economy, labor, raw materials, and facilities must be shifted from the production of civilian articles to the production of weapons and war supplies. Taxes can aid in speeding these shifts by cutting non-essential civilian spending. The differing effects of various taxes, not only upon the demand for goods, but also upon the production process itself, should be carefully considered when tax legislation is drafted."

MR. KADES: Do you want to say anything about labor, raw materials and capital funds should be shifted?

MR. PAUL: Labor, raw materials --

MR. KADES: You say labor and raw materials. How about the capital?

MR. PAUL: You could say labor, raw materials and facilities.

MR. WHITE: Labor and raw materials really means capital, the financial part of it. Capital is embodied in those two things.

MR. KADES: In the raw materials?

MR. WHITE: Or labor, one of the two.

MR. KUHN: You don't want to tie it down to raw materials, particularly. You may want to shift machines.

MR. GASTON: If you want to make the word "raw materials" comprehensive, you had better leave out the "raw."

MR. GILBERT: That is the meaning of facilities.

MR. WHITE: You could say raw materials or equipment, maybe. That last paragraph, Gilbert, you will recognize, has a considerable condensation of something you had. Does it adequately cover it?

MR. GILBERT: Is this going to be the only reference to that?

MR. WHITE: No, there will be a little more in the next section. Maybe you would like to reserve your comment.

H.M.JR: Dan?

MR. RANSOM: Mr. Secretary, may I ask a question at this moment? I think that this is a very good statement and obviously very carefully thought out, so I suppose that the omission of any reference to the desirability in principle of increasing civilian production in so far as it can be increased as a subsidiary measure of Government behind the necessity for putting all the effort first to the production of materials for war, is not just an oversight. It might be a little difficult to say it and personally, I don't think at the moment it is so important. At the same time, of course, I think all of us recognize that if we could do both of these things simultaneously, it would be highly desirable and less emphasis on allocations, priorities, price controls and so forth would be necessary.

Now, I wouldn't have any words to suggest that might not lead into real difficulty but in principle I think we should not go by without a brief discussion of it.

H.M.JR: Three weeks ago I would have put it in.

MR. RANSOM: Yes.

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H.M.JR: Everybody is doing everything that they can, but I think right now we had better talk war.

MR. RANSOM: That suits me personally. I think that that would be pointed out by a good many people as an omission. It isn't one of major concern to me. I think the more you talk war and the more you put the emphasis, the better the job will be.

H.M.JR: Well, Ronald, we can put it in and then how the hell is he going to make good on it?

MR. RANSOM: I don't know. That would be, I think, a real problem.

H.M.JR: I mean, how the hell is he going to make good on it? I am glad you brought it up, but if it is left to me - my own people can overrule me - I think this is a good fighting speech and the emphasis is, we are going to have to produce this stuff and we are going to have to pay for it. Now, as far as I am concerned--

MR. RANSOM: Obviously your staff doesn't think it should be included.

MR. WHITE: I can't say that that was given, while I was at any of the meetings - it may have been given passing attention, but it certainly wasn't given any considerable attention. What we might do is talk it over when we leave here.

H.M.JR: I don't want to water it down. This is a war speech and this is what I would like to see him do.

MR. WHITE: The danger is that you would be watering it down because the moment you say you want to encourage those things which don't compete, then it appears as though the program which Mr. Gilbert says they are embarking on of curtailing drastically everything down the line provides a basis for discussion. They can say, "Well, this doesn't compete," and so on.

H.M.JR: Well, Harry, somebody - I don't know which agency comes out and says we can't buy any more tires. They

don't tell us why. They just say, "You can't have them."

MR. RANSOM: You pretty well know why.

MR. GILBERT: The position of the Price Administration and Mr. Henderson is that no emphasis should be placed - no emphasis whatever on any possibility of expanding non-defense production.

H.M.JR: Well, there you are. I didn't even know that.

MR. RANSOM: That is satisfactory to me personally, but I know that there may be some comment on it if it is omitted.

H.M.JR: Well, there is the answer and I agree. Are you satisfied?

MR. RANSOM: Perfectly.

H.M.JR: I would leave it out.

MR. PAUL: Mr. Gilbert has some figures which I think--

MR. GILBERT: They are not relevant at this point.

MR. PAUL: But they show that we can't make good.

H.M.JR: I would like to hear it after Mr. Bell does his part, but I am glad - I put it in both my speeches that I made in the last two or three months, and I was all for it. I think it was good then but--

MR. RANSOM: Let's leave it out for the time being.

H.M.JR: It is a pious hope which I don't think we ought to express.

MR. BELL: Have you got the last page?

H.M.JR: I have got the two last pages. Which one do you want?

MR. BELL: Well, the ceiling on the rate is like the fellow's overcoat, still in there--

H.M.JR: What a man.

MR. BELL: The one is with the overcoat left out.

MR. WHITE: I think we have met you more than half way on that.

H.M.JR: On which?

MR. MORRIS: On the rate.

MR. WHITE: On the part done by Mr. Bell.

MR. MORRIS: We have gotten vague instead of specific.

H.M.JR: Of course, Dan, the Federal Reserve is here, and if they want to guarantee through hell, high water and so forth--

MR. BELL: We have got them sold.

H.M.JR: That it will always be two and a half percent.....

MR. RANSOM: If I, individually, had the power, I would gladly do it. I will use such persuasion as I may have with my associates to come out at that point and let the Treasury give the word.

MR. BELL: I think we passed that point when we agreed to suport '67-'72's at par.

MR. RANSOM: I think that is the reality of the situation. Whether it is wise to express it too frankly here, I would doubt. I don't think you need go too far in a document of this kind.

H.M.JR: Well, Dan dies hard. Let's have it, Dan.

MR. BELL: Well, this section has been very much reduced, and it mainly contains now a paragraph drafted by Mr. Gilbert.

H.M.JR: This is by Mr. Gilbert?

MR. BELL: Well, the main part of it is Mr. Gilbert's viewpoint on this whole section, and we took it back last night before Jake left and revised it in this short form.

"The expenditure program set out in this budget will make necessary not only substantially increased taxes but also greatly increased borrowings. These borrowings will be facilitated by the circumstances which are necessarily associated with a change from a peace to a war economy. The achievement of the all-out war production program will require drastic curtailment by allocations and other controls of new investment in non-defense plant and equipment; it will require deferment of replacements and even maintenance in these lines--"

H.M.JR: Just one second, because this is new to me. O.K.

MR. BELL: It is practically the same thing you had yesterday except now it has been joined.

"... it will require an extension of the existing curtailment of production and consumption of consumers goods."

H.M.JR: One minute, please. O.K.

MR. BELL: "These measures will cut non-defense expenditures by many billions of dollars. This drastic curtailment of non-defense expenditures will add correspondingly to the private funds available for investment in Government securities.

"With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing, we can finance our war effort without danger of disruptive inflation."

H.M.JR: Well, the first thing I want to say, I am like Ronald Ransom. You leave out his favorite child, and you don't say anything about my Defense Savings Bonds anywhere in this thing.

MR. GASTON: I think it goes broader than that. There is nothing in here about individual restraint, individual saving, and I don't think we can spend fifty billion dollars, the Government can spend fifty billion dollars in war production unless it does get - have a big campaign and a lot of voluntary failure to spend, restraint from spending, abstention from spending, and I think we ought to have something about that in here.

MR. BELL: Well, what do you think that - beginning with the word "achievement of all-out war production" - means, if it doesn't mean all of that.

MR. HAAS: And a good deal of the savings will be involuntary.

MR. GASTON: But I still think you have got to have the voluntary system.

MR. WHITE: The reason I hesitated about not including it in, I think it was our feeling that the amount of voluntary saving through Defense Bonds which you could get, though large, becomes small when compared with the magnitude of the deficit we are talking about. To put that degree of emphasis on something that may amount even under the most optimistic emphasis, to six billion dollars a year, though that is very, very substantial, yet when compared with a forty billion dollar deficit it seemed to lose much of its significance, and we thought that the the emphasis on that had better be reserved for either your discussions or others.

MR. GASTON: I think we ought to have some sanction for it in here. We ought to have a word or two at least.

H.M.JR: Dan, put something in here to encourage the mass of people who have voluntarily subscribed to

these bonds, if it is only just a sentence.

MR. CURRIE: It can come right after the first sentence I think, Mr. Secretary.

H.M.JR: Just a sentence. You can say you have got all these labor unions and all of these people. Here are the seven hundred thousand Automobile Workers who sent in a telegram. One of their boys, his son was lost in Pearl Harbor. They pledged fifty million for a new battleship. You don't know how far these things go. Just a sentence.

MR. KUHN: Herbert would carry it still further, Mr. Secretary. Herbert would carry it further and put in some appeal for restraint in spending, irrespective of the purchase of Defense Bonds.

MR. CURRIE: I think right after the first sentence you could put in a sentence incorporating that idea. These borrowings will come from the individuals voluntarily restricting their spending and so on.

H.M.JR: Something like that.

MR. RANSOM: In effect you want to say you can say there is no income too small or none too large to participate in this program.

H.M.JR: I want to doff my hat to the people who have voluntarily come forward to do this thing, and I think the response to date is worth taking one's hat off.

MR. BELL: Well, I agree with that. I really don't think it has a place in this budget message, but I am glad to put it in if you want.

H.M.JR: I definitely would like it in. It is the only thing I have asked to go in. (Laughter) They gave Ransom his thing.

MR. RANSOM: I am prouder of your child than I am

of mine.

(The Secretary held a telephone conversation with Mayor LaGuardia.)

H.M.JR: I loved the way he put it. He said they were having a test of some kind about bombs which would go off and make a whistling sound. He called me up yesterday and he said the experiment was a hundred percent successful. We got a unanimous report they were no good. (Laughter)

Can I have something in there, Bell? And I am not going to trade with you for your interest rate, either.

MR. BELL: Well, I don't care much about the interest rate any more because I don't think it is strong enough as it is.

H.M.JR: Well, let's leave the interest rate out and give me a sentence, will you, on the voluntary thing.

MR. WHITE: You say leave the interest rate out.

H.M.JR: Yes.

MR. WHITE: This last section?

H.M.JR: Yes. And give consideration to what Herbert said about restraint of buying.

MR. WHITE: At the risk of incurring your further displeasure, I think it ought to be in, very strongly, that you ought to give a little more opportunity for some discussion on that point.

MR. BELL: I think it ought to be in, too, but I think it ought to be in stronger than it is in.

MR. WHITE: Will you give us another crack at it?

H.M.JR: No, Jake Viner even agrees with me.

MR. BELL: Jake Viner agrees with this?

H.M.JR: Well, he is not here.

MR. BELL: Well, I have got a sheet with his initials on it.

MR. CURRIE: We are unanimous on the interest rate, Mr. Secretary.

H.M.JR: Wonderful. For once in my life I am not going along with my advisers.

MR. GOLDENWEISER: I have two verbal suggestions--

MR. RANSOM: Before he gets to the verbal suggestions--

H.M.JR: Excuse me, Lauch, I think what we do on it will speak louder than any statement.

MR. GILBERT: I would like to suggest, Mr. Secretary, that it would very greatly facilitate the operations of the Treasury if that proposition of the interest rate were made very, very firm. In the absence of such a statement, there must be very considerable hesitation on the purchase of securities.

MR. CURRIE: Particularly when you talk in terms of a forty-billion dollar deficit.

MR. BELL: I am afraid they are going to sit around and wait for a three percent rate.

MR. CURRIE: That is what I am afraid of.

MR. MORRIS: And then they will wait for three and a half.

MR. BELL: The thing I would like to ask you, Mr. Secretary, if you don't want it to go in here that you give some real consideration to the problem before this budget message is published, because I think it is going

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to be quite a shock to the market.

H.M.JR: Well, I will - you have got to come back between - you have got to change this for me anyway. Write it both ways again, Dan.

MR. RANSOM: My last suggestion is a compromise, Mr. Secretary. I have some doubt as to whether such a statement should go in the budget message. I haven't any doubt in my own mind that it would be helpful to the Treasury if you should say something at the same time at the very first opportunity.

H.M.JR: How about if I write an article for Fortune magazine?

MR. RANSOM: I don't think highly of that.

MR. WHITE: They don't pay high enough.

MR. RANSOM: You ought to take an occasion to say something for nearly all of the reasons which have been advanced. I think it would be very reassuring, and I think it would bring out funds which are now a little hesitant, and I think a strong case can be made.

H.M.JR: Well, I will give it another thought. If you all feel that way, what the hell? I am only one.

MR. GOLDENWEISER: I feel that way very definitely, Mr. Secretary.

MR. CURRIE: And I agree with Ronald, however, that it would serve the purpose equally well or apparently better if there could be a joint statement by the Federal Reserve and the Treasury on the interest rate policy to be pursued through the emergency. I think it would be very, very helpful. Or by you alone. It doesn't make any difference.

H.M.JR: No, it should be joint.

MR. RANSOM: I would agree in principle with that.

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It makes my road a little harder.

MR. WHITE: This is the first time they will hear this forty billion figure. It should be either very close to that or preceded by that or simultaneous.

MR. RANSOM: I think it should be timed.

MR. WHITE: Otherwise it will seem as though you are appalled by what is happening, and you are trying to throw in reserves. I think it is better to take the thing by the forelock and sock it at the same time or make a statement prior to it.

H.M.JR: Well, when you come in, come in with two sheets of paper again, provided there is something in on my Defense Savings Bonds.

MR. BELL: We will trade, will we?

H.M.JR: Yes.

MR. WHITE: Maybe Ferdie can draft three or four sentences on the Defense Savings Bonds.

H.M.JR: I am sure he can. One sentence will be enough. Just the volunteers.

MR. BELL: Something along the line of Lauch's.

H.M.JR: Just the way Frank Knox gets the thrill about having the number of volunteers go up the last two weeks, I get it through people who are coming in to buy the bonds. Now, I don't know how long it will last, but yesterday we took in thirty-four million dollars in E Bonds in one day and the whole month of November we sold a hundred and nine. I don't know whether it is going to continue, but that was one day of E Bonds. These people that are doing this thing, I think it is worthy of one sentence, because I personally am going to keep fighting to make it easy for these people to do it, not only for the money but

for the satisfaction they get in their innards. They are doing something.

MR. RANSOM: I agree fully with you. I think this particular message may not fit in with your scheme of things that you have got, but it is after all somewhat in the nature of a stump speech on occasions such as this, and if there is something like that to which you and we and the rest of us can tie whatever we say in the future, it would be very helpful.

H.M. JR: You take right today, the people want to do something. I get it all the time. What can they do? They can enlist in the Army and Navy or the Marine Corps or they can buy a Defense Savings Bond, and when you have got that through, by God, that is about all they can do unless they want to roll bandages or something like that. There isn't much else.

Now, the President - he did. He gives his whole speech on the Red Cross roll call. All I am asking for is one sentence. (Laughter)

MR. GOLDENWEISER: Well, you should have it, Mr. Secretary. You are so modest.

H.M. JR: I have got to work like hell to get it, though. I am not asking that we put in Irving Berlin's song. (Laughter) It might be a good idea at that.

MR. BELL: Why don't we end it? We ought to have an ending anyhow. The "Buy A Bond" song.

H.M. JR: Just put a copy of Irving Berlin's song at the last page.

MR. BELL: Sure.

MR. BEAN: Mr. Secretary, may I make a small suggestion about the middle of the paragraph?

H.M. JR: Please.

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MR. BEAN: The line that reads, "require an extension of the existing curtailment of production and consumption of consumers goods." Now, it has been pointed out in the various places that restriction on consumption of consumers goods would be very largely in the hard goods. We are not concerned particularly with, say, foods. I wonder if it might not be - if you can't be a little more positive in the statement of this problem by indicating that in one major area of consumption we are not going to have any curtailment.

H.M.JR: Meaning food?

MR. BEAN: Food.

H.M.JR: I think it is good.

MR. BEAN: And that in the other areas we are merely asking for a restriction of those things which by and large are postponeable.

H.M.JR: Take it on.

MR. GILBERT: As a matter of fact, in the first draft of this thing, durables and semi-durables were specified. That was dropped out, I take it.

MR. WHITE: We thought it was too technical.

H.M.JR: I entirely agree with the present phrasing. I do not think that you can afford to say to the country that they will not be obliged to cut their consumption of food. I think it is too misleading. At this time it comes pretty close to dishonesty to make a proposition of that sort.

MR. BEAN: Unfortunately, I haven't been in touch with the agricultural figures for the last couple of months. Are you speaking now from your knowledge of the production of 1942?

MR. GILBERT: On the basis of such information as we have with regard to production and Lend-Lease food

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requirements, I can see no out but to ration many of the food items.

MR. BEAN: Well, I yield to his information, but I am going to check on my own account to see whether he is right and bring myself up to date on this, Mr. Secretary.

MR. GILBERT: In any event, even if it is not true of food, it is true of my textile items. Why should we be specific?

MR. BEAN: Well, because you are--

MR. WHITE: How would essential foods strike you?

MR. HAAS: Well, it is the essential ones Gilbert has in mind.

MR. BEAN: Here we are running with a capacity consumption of food at the highest level in history.

MR. GILBERT: But I should like to say I think it is high time - take the discussion of butter. We put it on straight out and out war requirement terms. Whatever that takes, that is all right. The country is ready--

MR. BEAN: But you don't need to make people fearful of things about which they don't need to be fearful.

MR. GILBERT: I don't think there is anything frightening about that phrasing.

MR. BEAN: If it is true under Lease-Lend, we are going to support such a huge volume that we will be curtailing our food consumption well and good. If that is a fact, I don't mind having it stated. But if, as I assume, that isn't the case, then it doesn't hurt to indicate it.

MR. WHITE: If Louis Bean's version of the facts

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are correct, then a sentence ought to go out.

H.M.JR: It is something new. Would you take these fellows on a little bit when this meeting is over?

MR. BEAN: Well, if you don't mind, inasmuch as there seems to be a different interpretation of the facts which I don't have and Dick apparently has--

H.M.JR: Well, couldn't you go down to Harry White's office and just take enough time to get together on it?

MR. BELL: I think the whole paragraph probably ought to be gone over with them because I don't think Mr. Gilbert had seen it since it had been revised.

H.M.JR: Or go into Mr. Bell's office. This is your responsibility, Bell. I mean, why don't you, when it is over, go into Mr. Bell's office? I mean, I am holding you responsible.

Now, one other thing, somebody said you had some figures that you wanted to tell us.

MR. GILBERT: It is very technical, Mr. Secretary, what I had in mind was simply for the use of the technicians to go over. The basic computations are very simple. The basic program which is now envisaged calls for production of durables of thirty-five to thirty-eight billions in fiscal '43. Now, those items, Army ordnance, ships, planes, cannot be produced except by diverting the metals and facilities from the production of plant, equipment, machinery, durable consumers' goods.

In other words, to get this victory program, to get these Government expenditures, you are simply obliged to go out through allocations and cut the expenditures of business and cut the expenditures of consumers for goods. Therefore, you choke off the

volume of expenditures by business exactly equal to the increase in defense expenditures, and you choke off the volume of expenditures by consumers almost equal to the increase in expenditures by Government on the basis of the materials taken.

H.M.JR: Almost equal?

MR. GILBERT: That is right. In total we get a result of this sort, that between September of this year and December of '42, roughly the mid point of the fiscal year, an increase of defense expenditures of thirty-three billion is contemplated.

H.M.JR: From when to when?

MR. GILBERT: From September of '41 to December of '42. To meet that increase, funds available to satisfy the Treasury's requirements will come to twenty-one billions, from the decrease in other Federal expenditures, about one billion, decrease in state and local expenditures of about one billion, and decrease in private plant and equipment expenditures and durable, consumers' goods, that totals twenty-one billion. We estimate further that an additional nine billions of savings will be available as a consequence of the increased financial income between September of '41 and December of '42 so that a total of thirty billions additional funds available for Government use is contemplated as against a need of thirty-three.

H.M.JR: Well, we miss by three billion.

MR. GILBERT: That is right.

H.M.JR: That is not bad.

MR. GILBERT: These figures are tentative, and they might be out by three or four billions, but they could not be off more than that.

H.M.JR: Would you leave that with Mr. Bell?

MR. GILBERT: Be glad to.

H.M.JR: I would say that was encouraging from the standpoint of money raising.

MR. GILBERT: That is right. It follows inevitably from the fact that you cannot get the defense production without curtailing the production of machinery of all the hard goods generally.

MR. BELL: That was the reason this whole paragraph was changed around to another approach.

H.M.JR: Well, let's leave it this way, Dan. Do you suppose I could have the thing - meet with my own people again at two-thirty and then finish it?

MR. GOLDENWEISER: May I make two verbal suggestions right now, or shall I make them later?

MR. BELL: Make them in there. I think what we can do is go in there and get an agreement with this group and then come back to you in our own group and--

H.M.JR: At two-thirty.

MR. BELL: Yes.

H.M.JR: And if you don't mind, when you leave Mr. Bell's office, I think it would be nice to leave all the copies in there, if you don't mind. I mean, all the copies of this thing, if you would just leave it in his office.

MR. PAUL: That two-thirty is subject to air-raid alarm?

MR. BELL: Oh, it is?

H.M.JR: Not in this building.

MR. PAUL: Oh!

H.M.JR: Not in this building. We had ours yesterday.

MR. RANSOM: May I ask, would you like Dr. Goldenweiser to stay?

H.M.JR: Very much so.

MR. RANSOM: And if you have any other meetings scheduled for the afternoon, will you advise him? If you want me, I am available all day.

H.M.JR: No, if those people, the technicians who are here, and I take it you and I are not, will go in Mr. Bell's room now, they can finish this thing up and then they will come in and simply show me where to sign it.

FINANCING THE WAR

Victory in this war will demand expenditures on a scale for which there is no precedent in our history. Victory will call for sacrifices -- real and stern sacrifice -- on the part of every American, irrespective of occupation or income. If we are to furnish the weapons to the men who are doing the fighting, we shall have to exert every possible ounce of energy, and we shall have to mobilize every possible dollar of our income.

The material resources we need for victory will be supplied, whether guns or dollars. The task is huge, but it is within our powers.

Until this job is done, we will not talk of burdens -- of tax burdens or debt burdens. Instead we will talk of opportunity -- the opportunity to have a real part in the fight to preserve our freedom.

This is the spirit in which the American people will want us to approach the problem of financing the war.

Let me state briefly the basic objectives which I think should guide us in the formulation of a fiscal program for the war.

1. The revenue of the Government must be greatly increased to meet war expenditures. The maximum possible portion of the war cost must be met from taxation.

2. Inflation must be curbed.

3. The financial sacrifice must be equitably distributed.

4. Undue profits during wartime must be taken by the Government.

5. More flexibility should be introduced into our fiscal measures during the emergency.

6. Our fiscal policy must be directed toward the achievement of maximum war production.

#### TAXES

1. The Need for Additional Taxes

In the past 18 months this Nation, while building up its defenses, laid the foundation for a mighty structure of arms production.

In the fiscal year 1941 defense expenditures amounted to \$6.3 billion. We expect to spend upon our war efforts \$22 billion in the fiscal year 1942 and \$50 billion in the fiscal year 1943.

In the fiscal year 1941 Federal net receipts were \$7.6 billion. These are expected to be \$11.9 billion in the fiscal year 1942 and, if there are no changes in our tax structure, \$16.5 billion in the fiscal year 1943.

Thus it is estimated that the net deficit will be \$16 billion for the current fiscal year, and, if no new taxes are enacted, \$40 billion for the fiscal year 1943.

In these estimates allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit.

The disparity between estimated revenue and estimated expenditure is far too great for a sound fiscal program. We must have additional taxes.

## 2. The Menace of Inflation

Additional taxes are needed to combat inflation.

As we approach full utilization of our productive resource any considerable rise in prices would be an unqualified evil. Inflation is a source of grave social injustice. It undermines morale and impedes war production.

The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Another part of such a program might be expansion of the social security system, which at a later date I intend to recommend for other and more basic reasons. Price control, allocations and rationing are other parts of such an integrated program.

All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

### 3. Equitable Distribution of Taxes

With far heavier taxes the need for equity in the tax system becomes more urgent.

In this war it will be necessary to tax more heavily all sections of the population who are above the subsistence level. All able to bear them will have to make sacrifices. But the fact that large additional taxes have to be imposed should not lead us to forsake the principle of taxing according to ability to pay.

I have frequently pointed out that there are numerous loopholes in the present tax structure which ought to be closed. Because some taxpayers use these to avoid taxes, the other taxpayers must pay more than they should. We can no longer tolerate these loopholes.

Our tax laws contain a number of unintentional technical inequities--unfair discriminations between different persons who are substantially alike and should be treated equally. These technical inequities are always objectionable, but now when taxes are being increased, it is urgent that the Government should, to the greatest extent possible, provide relief from them.

#### 4. Prevention of Undue Profits.

It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a wartime economy, the country cannot tolerate unduly high profits for business concerns. Wherever these occur, they should be recaptured.

#### 5. Flexibility in the Tax System /

The rate of war expenditure, the size of the national income, the course of prices, and the extent and effectiveness of allocations and other controls are not subject to accurate estimate far in advance. It is therefore impossible to determine now precisely how much additional taxes should be collected during the next 18 months. This is true even though there can be no dispute that the needs will be great. It is, accordingly, important that the Congress realize the tentative character of all estimates here presented, and that it give consideration to the desirability of introducing into its tax legislation provisions which will make possible quick adjustments in the timing of tax collections or in tax rates during the period when rapid changes in the fiscal and economic situation are likely to occur.

## 6. Relation of Production and Victory

In wartime when the life of the Nation is at stake the sound fiscal policies are those which will help win the war. Sound war taxation not only must contribute to defraying the cost of weapons, but it should facilitate their production in every possible way.

In a war economy, labor, raw materials, and facilities must be shifted from the production of civilian articles to the production of weapons and war supplies. Taxes can aid in speeding these shifts by cutting non-essential civilian spending. The differing effects of various taxes, not only upon the demand for goods but also upon the production process itself, should be carefully considered when tax legislation is drafted.

BORROWING

The expenditure program set out in this budget will make necessary not only substantially increased taxes but also greatly increased borrowings. These borrowings will be facilitated by the circumstances which are necessarily associated with a change from a peace to a war economy. The achievement of the all-out war production program will require drastic curtailment by allocations and other controls of new investment in non-defense plant and equipment; it will require deferment of replacements and even maintenance in these lines; it will require an extension of the existing curtailment of production and consumption of consumers goods. These measures will cut non-defense expenditures by many billions of dollars. This drastic curtailment of non-defense expenditures will add correspondingly to the private funds available for investment in Government securities.

With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing, we can finance our war effort without danger of disruptive inflation.

December 24, 1941  
10:40 a.m.

Operator: Miss Tully, Mr. Secretary.

HMJr: Go ahead.

Operator: Hello. Secretary Morgenthau.

HMJr: Good morning.

Grace  
Tully: Good morning, Mr. Secretary. Mr. Secretary, I just thought I'd call you and tell you that the President won't do anything on that message until after this whole thing is over.....

HMJr: Yes.

T: .....so it will not be until after Christmas; and then he wants you and the Director of the Budget.

HMJr: He will see me?

T: Yes. You and the Director of the Budget, he said.

HMJr: Wonderful. Well, I think I may send it over this afternoon anyway.....

T: Yes.

HMJr: .....and then you can put it in storage.

T: Fine. I'll keep it until after Christmas, then.

HMJr: Thank you.

T: All right, fine, Mr. Secretary.

HMJr: I'm very much obliged.

T: All right, sir.

HMJr: Merry Christmas.

T: Merry Christmas to you, sir. Thank you.

HMJr: Good-bye.

T: Good-bye.

December 24, 1941  
11:03 a.m.

HMJr: Hello.

Fiorello  
LaGuardia: Good morning, Henry.

HMJr: Hello, Fiorello.

L: Our experiment yesterday, in so far as the experiment was concerned, was a complete success.

HMJr: Wonderful.

L: Wait a minute. In that we got a unanimous verdict that it was no good.

HMJr: (Laughs) You're the damndest fellow I ever listened to.

L: Yes. The experiment was successful. We found out one thing definitely - there's no doubt that it's no good.

HMJr: His Honor's report is that it's no good.

L: No good.

HMJr: Yeah.

L: Now, here's the situation in Washington. Forty-one sirens, twenty-three of them two horsepower, eighteen of them five horsepower.

HMJr: Yes.

L: The installation will be completed in twenty-one days - we hope. Contract was let to the Federal Electric Company of New York.....

HMJr: Yeah.

L: .....which has a high priority, and Colonel Bolles thinks he can get a top priority.

HMJr: Yeah.

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- L: Now, in the meantime, we're utilizing everything that could make a noise and we're commandeering it to be used if we have to give an alarm.
- HMJr: Good. But he'll have something within twenty-one days.
- L: Yes. Now, Henry anything that you can do with the Priorities - the contract is let to the Federal Electric Company of New York.
- HMJr: Well, we can - if you'll have Colonel Bolles contact Clifton Mack - M-a-c-k.....
- L: Right.
- HMJr: .....Director of Procurement of the Treasury.....
- L: Yes, sir.
- HMJr: He can help you.
- L: He'll help to get a top priority; and as soon as I get home this afternoon, I'll tell those people to work night and day.
- HMJr: Well, he'll help him get a priority.
- L: Yeah. And then I'll tell the factory to work night and day and Sundays and every other thing to get these things out for you.
- HMJr: Twenty-one days is a long time.
- L: Well, I - we want to shorten it. I'll get ahold of the Federal people in New York - that is, the Electric Company - and tell them they have to get it out.
- HMJr: Well, I'll call Clifton Mack and tell him he'll be getting a call from Colonel Bolles.
- L: Right.
- HMJr: I'll go further - I'll tell him to take the initiative and contact Colonel Bolles.
- L: Well, I'll tell Colonel Bolles that he'll get

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help there on this priorities.

HMJr: All right.

L: And just let me know - night or day.

HMJr: Right.

L: Thank you, Henry.

HMJr: Thank you.



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 24, 1941

MEMORANDUM TO THE SECRETARY:

Reference is made to your telephone conversation with Mayor LaGuardia regarding air raid sirens for the District of Columbia.

Immediately following the receipt of your message I telephoned Col. Bolles and obtained this afternoon an application for preference rating.

Contact was then made with the manufacturer's representative and he has assured me that there will be no delay in going forward with this order, also that every effort will be made to reduce the twenty-one day delivery date. The Office of Production Management is closed this afternoon but first thing Friday morning I will have our priority man obtain the rating necessary to clear this order.

*Clifton E. Mack*  
Clifton E. Mack,  
Director of Procurement

December 24, 1941  
2:07 p.m.

WJr: Hello.

E. E. Brown: Hello. E. E. Brown of the First of Chicago, Mr. Secretary.

H Jr: Yes.

H: I've been thinking over names.

WJr: Yes.

H: There's one name - it's pretty hard to get anybody whom I think has got both the ability and could live in Washington. Do you know Robert W. Lee - he's now Executive Vice President of Johns-Manville. He was the first assistant of Hugh Johnson when Hugh Johnson was NRA Administrator.

HJr: No, I don't know him.

H: He's a fellow of a great deal of ability. He lived in Washington. I'm sure the President knows him and you could easily check on him, and he knows his way and how to get around in Washington.

WJr: He was first assistant to Hugh Johnson?

H: He was first - he was the Chief Deputy Administrator. He out-ranked everybody else but Hugh Johnson in the early days through NRA.

WJr: I see. Oh, yes.

H: But he wasn't - he's not a drinker like Hugh.

HJr: (Laughs) I see.

H: He subsequently left there and was president of a large lumber company on the Pacific Coast. He's been employed to run a group of coal mines and barge lines in which the First National Bank of New York was interested, and about a year ago he was made the second man in the Johns-Manville Company.

WJr: I see.

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B: Of course, they've got a lot of defense work.

HMJr: I see.

B: And they're building forty or fifty million dollars - in addition to their making all the insulation for battleships and boilers and so forth - they're building forty or fifty million dollars of shell loading plant down in Missouri somewhere, which the Navy Department wished on them because they had a lot of executive ability.

HMJr: Yes.

B: But Lee's unquestionably got the ability, and he's also proved that he's got the ability to get on in Washington, which a good many business men haven't got.

HMJr: You're right. Have you talked to him at all?

B: No, I haven't.

HMJr: I see.

B: I didn't feel that I was at liberty to talk to him. Now, another name that I could give you - there's a man, he's a lawyer, named A. Crawford Greene. G-r-e-e-n-e.

HMJr: A. Crawford.

B: Greene.

HMJr: Crawford.....

B: G-r-e-e-n-e.

HMJr: Yes.

B: In the Balfour Building, San Francisco.

HMJr: Yes.

B: He's a man of about fifty-four or fifty-five, a graduate of Yale and the Harvard Law School. He's one of the foremost lawyers in San Francisco,

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but he's a lawyer who's been very active in a great many business enterprises.....

HMJr: I see.

B: .....Matson Line, banks. He was chairman of the committee which settled some of the labor disputes over shipping out there, and he's a man who's got the capacity to get along with people; and while he's never lived in Washington, I'm sure he's got the ability.

HMJr: I see.

B: He would be a great - he's a man who's probably made three quarters of a million or a million dollars in the law practice. He told me about a year ago that he was going to Washington because he felt - to offer his services - because he felt that if there was a job of sufficient importance that he could do, that it was a time where people should submerge their personal preferences and so forth; on the other hand, he had been offered a membership with the Maritime Commission and things like that where he felt that he could be of more use to the country in San Francisco.

HMJr: Yes.

B: I know from talking with him that he was for Mr. Roosevelt on his foreign policy, not on his domestic policy, at the time of the last election.

HMJr: Yes.

B: His son-in-law's an aviator in the Army, an officer and so forth, and I'm sure he'd have the ability.

I've got a third name whom - of a fellow who's got the ability to do it, who might - but he probably should - having been active in Mr. Willkie's behalf, perhaps, but I don't believe - he's not very pre-possessing, but I doubt very much whether he could live in Washington.

HMJr: I see.

B: That is, whether he could get on. He's rather

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positive and may find it pretty hard to make the necessary adjustments here. I shall give you his name if you want to.....

HMJr: Well, what's his name?

B: James F. Griswold.

HMJr: Oh, I don't know him.

B: He lives in Chicago - G-r-i-s-w-o-l-d.

HMJr: Oh, yes.

B: His address is the Oak Crest Hotel, Evanston. But he's been a man who's been used by the banks here to reorganize large enterprises. He's got great organizing and co-ordinating ability and a remarkable record of success. He was very active in Willkie's pre-convention campaign, and then for Willkie after it. At the same time, while it would represent a heavy financial sacrifice to him, I know that his position is - I haven't talked to him about this particular job - that if there's any way he could help the country, that he feels that.....

HMJr: He'd do it.

B: .....any personal considerations of his own are entirely secondary.

HMJr: What happened to your suggestion to this man of Marshall Field, did you drop that?

B: Well, I talked about him. I checked up, and he's pretty positive, and I doubt whether he's got the ability to do it.

HMJr: Yes.

B: Whether he'd have the ability to make the adjustments political and otherwise that are necessary in such a position in Washington, I'm not so sure.

HMJr: I see.

B: But you could - his name was Hughston McBain.

HMJr: Yes.

B: He's Executive Vice President of Field's; I don't know whether he'd take it. I haven't approached any of these men.

HMJr: No.

B: And I checked up on his politics. He's quite strongly Republican and anti-New Deal.

HMJr: Oh. Well, that's not too good. Of these, the Robert Lee sounds the best.

B: To my mind, Lee is undoubtedly the best.

HMJr: Well, I'll make.....

B: Greene would be the second best, because I'm sure Greene could get along in Washington. Griswold has got a lot of ability.

HMJr: Well, I'll.....

B: He's not as well known as the other two. You can check Greene through anybody in San Francisco, and you could check him as to his labor and political relations, and I'm sure he'd get the highest answer.

Lee - anybody checking who knows anything about the NRA does it, or you can check him anywhere in New York as to his business ability.

HMJr: Well.....

B: Griswold you can check amongst the bankers in Chicago; and as I say, he was actively Willkie, but - and like a good many other people who think of their incomes-Griswold isn't a rich man, but capable of making large earnings - I mean, he'd like to do something I know, to help in this situation, and his attitude would be, "to hell with his own personal finances".

HMJr: Right. Well, I'm ever so much obliged; and I'll go to work on these; and then if these people in

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Chicago - if any of them check up, I'm going to ask you if you wouldn't mind contacting them for me.

B: No.

HMJr: So.....

B: All right. Mr. Lee is in New York you understand.

HMJr: Oh, he's in New York.

B: Yes.

HMJr: Oh, I didn't realize that.

B: He has lived in Chicago - he originally came from Moline.

HMJr: Oh.

B: But he's now in New York, at the present time. The headquarters is the Johns-Manville Company there.

HMJr: Well, I'm ever so much obliged; and I'll be calling you again. And I wish you a very merry Christmas.

B: Well, I wish you a merry Christmas.

HMJr: Thank you so much.

December 24, 1941  
2:40 p.m.

RE PRESIDENT'S BUDGET MESSAGE

Present: Mr. Bell  
Mr. Paul  
Mr. Kuhn  
Mr. Morris  
Mr. Kades  
Mr. Foley  
Mr. Blough  
Mr. Haas  
Mr. Gaston  
Mr. White  
Mrs. Klotz

H.M.JR: What has happened to White? Has he passed out or something?

MR. BELL: He was all right when I saw him last.

(The Secretary held a telephone conversation with Mr. White.)

MR. PAUL: If you mention the sales tax you will get him in.

H.M.JR: I was trying to think of something that would make him come fast.

One thing George showed me was very interesting. I just sent it over to the President. There have been five and a quarter billion dollars of facilities for factories for production built in this country by Army and Navy and Defense Plant and to my amazement, less than a hundred and fifty million of that is by the English. I thought if they gave him a line of argument over there he might find that information very useful. Five and a quarter billion we have built in plants

and the English have built less than a hundred and fifty million. I didn't realize those proportions. I hope this is the last time I see this.

MR. BELL: I do too.

MR. PAUL: That is the way we feel. (Laughter)

H.M.JR: I will say this, though, in front of everybody, leaving the borrowing end out of it, this is one of the most difficult tasks that I have ever tried to do for the President, and thanks to Randolph Paul I have never--

MR. PAUL: And the rest.

H.M.JR: Well, your leadership. I want to say this. It has been easier on me than any time before, and I just want to say thank you.

MR. PAUL: Thank you.

H.M.JR: I mean, leaving out Bell. Bell's work is always good.

MR. BELL: Oh.

MRS. KLOTZ: He doesn't get praise any more.

H.M.JR: Yes he does, don't you, Dan?

MR. BELL: This one was terrible.

H.M.JR: No, Dan is always good. Now Dan, where do we start? Is this the same?

MR. PAUL: This incorporates all the ideas expressed this morning and one or two very minor ones.

H.M.JR: Couldn't you read the part which is new?

MR. PAUL: Well, it is new all through, Mr. Secretary, little things here and there.

H.M.JR: O.K. You read it out loud and if Harry White interrupts, God help him!

MR. PAUL: "Victory in this war will demand expenditures on a scale for which there is no precedent in our history. Victory will call for sacrifices--real and stern sacrifice--on the part of every American, irrespective of occupation or income. If we are to furnish the weapons to the men who are doing the fighting, we shall have to exert all our strength, and we shall have to mobilize every possible dollar of our income.

"The resources we need for victory will be supplied, whether guns or dollars. The task is huge, but it is within our powers.

"Until this job is done, we will not talk of burdens--of tax burdens or debt burdens. Instead we will talk of opportunity -- the opportunity to have a real part in the fight to preserve our freedom."

H.M.JR: Hear, hear.

MR. PAUL: "This is the spirit in which the American people will want to approach the problem of financing the war."

H.M.JR: This was to have been my radio speech for Sunday night.

MR. PAUL: "Let me state briefly the basic objectives which I think should guide us in the formulation of a fiscal program for the war.

"1. The revenue of the Government must be greatly increased to meet war expenditures. The maximum possible portion of the war cost must be met from taxation.

"2. Inflation must be curbed.

"3. The financial cost must be equitably distributed.

"4. During wartime the Government must absorb all undue profits.

- 4 -

"5. More flexibility should be introduced into our fiscal measures during the emergency.

"6. Our fiscal policy must be directed toward the achievement of the utmost war production.

#### "TAXES

##### "1. The Need for Additional Taxes

"In the past 18 months this Nation, while building up its defense, laid the foundation for a mighty structure of arms production.

"In the fiscal year 1941 defense expenditures amounted to \$6.3 billion. We expect to spend upon our war efforts \$22 billion in the fiscal year 1942 and \$50 billion in the fiscal year 1943.

"In the fiscal year 1941 Federal net receipts were \$7.6 billion. These are expected to be \$11.9 billion in the fiscal year 1942 and, if there are no changes in our tax structure, \$16.5 billion in the fiscal year 1943.

"Thus it is estimated that, if no new taxes are enacted, the net deficit will be \$16 billion for the current fiscal year, and \$40 billion for the fiscal year 1943.

"In these estimates allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit.

"Such disparity between estimated revenue and estimated expenditure is far too great. We must have additional taxes.

##### "2. The Menace of Inflation

"Additional taxes are needed to combat inflation.

"As we approach full utilization of our productive

resource any considerable rise in prices would be an unqualified evil. Inflation is a source of grave social injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

"The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Another part of such a program might be expansion of the social security system, which at a later date I intend to recommend for other and more basic reasons. Price control, allocations, rationing, and the regulation of consumer credit are other parts of such an integrated program.

"All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

### "3. Equitable Distribution of Taxes

"With far heavier taxes the need for equity in the tax system becomes more urgent.

"In this war it will be necessary to tax more heavily all sections of the population who are above the subsistence level. All able to do so will have to contribute. But the fact that large additional taxes have to be imposed makes it more imperative than ever to follow the principle of taxing according to ability to pay.

"I have frequently pointed out that there are numerous loopholes in the present tax structure which ought to be

closed. Because some taxpayers use these to avoid taxes, other taxpayers must pay more than they should. We can no longer tolerate these loopholes.

"Our tax laws contain a number of unintentional technical inequities and unfair discriminations. These are always objectionable, but with taxes at necessary wartime levels, it is urgent that the Government should, to the greatest extent possible, provide relief from them.

#### "4. Prevention of Undue Profits.

"It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a wartime economy, the country cannot tolerate undue profits. Wherever these occur, they should be recaptured.

#### "5. Flexibility in the Tax System

"The rate of war expenditure, the size of the national income, the course of prices, and the extent and effectiveness of allocations and other controls cannot be accurately estimated far in advance. It is therefore impossible to determine now precisely how much additional taxes should be collected during the next 18 months. This is true even though there can be no dispute that the needs will be great. It is, accordingly, important that the Congress realize the unusually tentative character of all estimates here presented, and that it give consideration to the desirability of introducing into its tax legislation provisions which will make possible quick adjustments in the timing of tax rates and collections during a period when rapid changes in the fiscal and economic situation are occurring.

#### "6. Relation of Production and Victory.

"In wartime when the life of the Nation is at stake sound fiscal policies are those which will help win the war. Sound war taxation not only must contribute to defraying the cost of weapons, but it should facilitate their production in every possible way.

"In a war economy, labor, materials and facilities must be shifted from the production of civilian articles to the production of weapons and war supplies. Taxes can aid in speeding these shifts by cutting non-essential civilian spending. The differing effects of various taxes, not only upon the demand for goods, but also upon the production process itself, should be carefully considered when tax legislation is drafted."

H.M.JR: Let's go around the room. Dave, have you any suggestions up to this point?

MR. MORRIS: Not really, no.

H.M.JR: All right. Before you change your mind, I will go on to Roy Blough.

MR. BLOUGH: No.

H.M.JR: George?

MR. HAAS: None.

H.M.JR: Kuhn?

MR. KUHN: I think it is very good.

H.M.JR: White?

MR. WHITE: No, except the word "tolerate" appeared in succession there. We might change it once. I think it is excellent.

H.M.JR: Foley?

MR. FOLEY: A very good statement.

H.M.JR: Kades?

MR. KADES: I like it the way it is.

H.M.JR: Herbert?

MR. GASTON: No suggestions.

H.M.JR: Bell?

MR. BELL: No.

H.M.JR: I am about ready to faint. Now, Mr. Bell, you must have given all these people an opiate of some kind.

MR. PAUL: They pretty near gave me an opiate absorbing a lot of these suggestions.

MR. BELL: "The expenditure program set out in this budget will make necessary not only substantially increased taxes but also greatly increased borrowings. These borrowings will be facilitated by the voluntary purchase of defense savings bonds on the part of a multitude of patriotic men and women who will cheerfully set aside some of their current income for their country."

H.M.JR: Thank you, Mr. Bell. If you (Mrs. Klotz) had been here this morning. I begged, I pleaded, I cajoled for one sentence. I would like to read it again. It tastes good.

MR. BELL: It is approaching Christmas.

MRS. KLOTZ: That is why he got it.

H.M.JR: They are trading with me. You watch this crowd.

MRS. KLOTZ: Wait until you see what is coming.

H.M.JR: You wouldn't give me the word, these borrowings will be greatly facilitated?

MR. BELL: Well, the next one is the biggest side of the problem, I suppose.

H.M.JR: Well, let's go through it. I may come back again. Go ahead, Dan.

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MR. BELL: "The borrowing will be facilitated also by the circumstances which are necessarily associated with a change from a peace to a war economy. The achievement of the all-out war production program will require drastic curtailment by allocations and other controls of new investment in non-defense plant and equipment."

H.M.JR: Just a minute. All right.

MR. BELL: "It will require deferment of replacements and even maintenance in these lines; it will require still further curtailment of production and consumption of many consumers goods. These measures will cut non-defense expenditures - both public and private - by many billions of dollars. This drastic curtailment of non-defense expenditures will add correspondingly to the private funds available for investment in Government securities.

"With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing, we can finance our war effort without danger of disruptive inflation and without departing from our low interest rate policy."

H.M.JR: The only thing I question is, we can finance. Are you sure of it?

MR. BELL: Well, we thought that this was one place we ought to be positive about it. We had it qualified at first and we all thought that we ought to be rather positive about it.

MR. GASTON: I think we have got to be.

H.M.JR: Do a little whistling in the dark?

MR. MORRIS: It is a case where you may be a little timid in your soul but you have got to be very strong outwardly.

H.M.JR: All right. Now, would you - these borrowings, would you give me the word, "will greatly facilitate it," up

in the second sentence at the top of the page?

MR. BELL: Give you a word?

H.M.JR: "Greatly."

MR. BELL: Which one, the first ones?

H.M.JR: "These borrowings will be greatly facilitated."

MR. BELL: The savings bonds or switch over from a peace to a war economy.

H.M.JR: "These borrowings will be greatly facilitated by voluntary purchases of defense savings bonds."

MR. KUHN: Wouldn't you have to have it also in the next sentence, since the change over is going to make even more of a difference than the saving.

MR. BELL: Yes, that is right. That is the reason we didn't put it in.

H.M.JR: All right, leave it out. I will take it the way it is. Now it is your turn to faint. (Laughter)

MR. GASTON: I am not sure that is right.

H.M.JR: I have said no, no, a thousand times no on the last sentence, and now I am just paying no attention to it.

MR. BELL: What? Now, what we would like to do is work on a joint statement for the Treasury and the Federal Reserve Board, work on it next week. We will have it ready to put out the morning that this budget message hits the market.

H.M.JR: If anybody wants to stay this afternoon - I have been rushing so that everybody can leave by four o'clock.

MR. BELL: Does the Department close at four o'clock?

H.M.JR: Well, this end of the Department closes up at four.

MR. BELL: No, I meant have the statement ready before the budget message is released to the press.

H.M.JR: Dan, you and everybody that helped, I would like to say thank you because I think this is - for everybody in the room, - I think this is a perfectly swell statement and I am very proud of it.

MR. BELL: I have got one other thing.

H.M.JR: Those letters to the President?

MR. BELL: Yes.

H.M.JR: May I see those?

MR. BELL: Those are the letters you dictated but I think you ought to take a look at the President's memorandum to you and Smith's letter. Have you got that with you, Randolph?

MR. PAUL: Yes.

MR. BELL: He sent you a memorandum from Smith and he asked you to cooperate with Smith, not to furnish him something.

H.M.JR: I know.

MR. PAUL: Smith didn't send his over.

MR. BELL: He didn't send anything to the President other than a...

H.M.JR: Well, gentlemen, look, on this stuff, let me do it my way and I have already got a message from the President and he will do the budget message with me and Harold Smith, see. I have already asked and I have got to answer back. I mean, I didn't wait for any letter. Let me read the thing. That is the only part I don't like,

about asking Harold Smith to sit down with me.

MR. PAUL: We didn't try to work on that letter because both Bell and I raised the question whether this should be sent at this time to the President before further efforts to cooperate with Mr. Smith. I had assumed before, just hastily reading that letter, that Smith had sent his budget message over, his draft, but he didn't, and therefore I raised the question as to whether you should, before talking with Smith yourself and all of us having - making further efforts to cooperate with Mr. Smith, and that perhaps is reinforced now by the fact of something you said this morning, that the President wouldn't give any attention to it while the present show is on.

MR. BELL: We drafted two other letters which approach it from that angle. There is a draft to Smith and a draft to the President.

H.M.JR: No, I am going to do it my way.

MR. WHITE: There is another possibility--

H.M.JR: Just a minute, Harry, please. Yes, Harry?

MR. WHITE: There is another possibility that might bridge that difference. You might say to the President along the lines of the letter that you already have that your staff has worked out a draft and name the other men who have agreed with it and say, "This draft is substantially different than the draft submitted by Mr. Smith, but I am sure that we can get together and iron out the differences."

H.M.JR: No.

MR. BELL: You could do it another way.

H.M.JR: What?

MR. BELL: You could delay your reply to the President's letter until we confer again.

H.M.JR: No, if you don't mind, this is something between the President and me and I have got some very deep seated reasons for wanting to do this. I will fix this letter up and send it in to Bell and I would like to have you send them both over this afternoon, one to Harold Smith and one to the Budget. I have some very deep seated reasons for wanting to do it. This is a personal matter between me and the President.

MR. BELL: O.K.

MR. PAUL: We just wanted to present the point. We thought maybe there would be more trouble dealing with Smith and getting together if he got a little annoyed that you had sent yours over.

H.M.JR: He will be, anyway.

MR. PAUL: Oh.

H.M.JR: He didn't send this to me. The President of the United States sent this to me. I am going to keep this thing on a level between the President and myself. If you don't mind, I don't want to go over a long - it is something I feel deeply about.

MR. PAUL: That is all right, we just wanted to raise this point.

H.M.JR: Well, I feel deeply and I really would like to do it the way I feel.

MR. PAUL: Well, that is all right.

H.M.JR: It is a personal matter.

MR. PAUL: We wouldn't be any good if we didn't raise these points.

H.M.JR: That is all right. The other thing is a state document and I am delighted. This is a matter of personal relationship between the President and me.

MR. GASTON: If Harold Smith had come over here with a complete draft of his proposed budget and had asked us to work with him on the situation, it would be quite different.

H.M.JR: Quite. Now, I want to make a couple of slight corrections.

MR. BELL: Well, I will get these things together and have them ready.

H.M.JR: Can I say goodnight to all of you?

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DEC 22 1941

11.52 (Rev.)

FINANCING THE WAR

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Victory in this war will demand expenditures on a scale for which there is no precedent in our history. Victory will call for sacrifices--real and stern sacrifice--on the part of every American, irrespective of occupation or income. If we are to furnish the weapons to the men who are doing the fighting, we shall have to exert all our strength, and we shall have to mobilize every possible dollar of our income.

The resources we need for victory will be supplied, whether guns or dollars. The task is huge, but it is within our powers.

Until this job is done, we will not talk of burdens -- of tax burdens or debt burdens. Instead we will talk of opportunity -- the opportunity to have a real part in the fight to preserve our freedom.

This is the spirit in which the American people will want to approach the problem of financing the war.

Let me state briefly the basic objectives which I think should guide us in the formulation of a fiscal program for the war.

1. The revenue of the Government must be greatly increased to meet war expenditures. The maximum possible portion of the war cost must be met from taxation.

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3. The financial cost must be equitably distributed.

4. During wartime the Government must absorb all undue profits.

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6. Our fiscal policy must be directed toward the achievement of the utmost war production.

#### TAXES

##### 1. The Need for Additional Taxes

In the past 18 months this Nation, while building up its defense, laid the foundation for a mighty structure of arms production.

- 3 -

In the fiscal year 1941 defense expenditures amounted to \$6.3 billion. We expect to spend upon our war efforts \$22 billion in the fiscal year 1942 and \$50 billion in the fiscal year 1943.

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Such disparity between estimated revenue and estimated expenditure is far too great. We must have additional taxes.

## 2. The Menace of Inflation

Additional taxes are needed to combat inflation.

As we approach full utilization of our productive resource any considerable rise in prices would be an unqualified evil. Inflation is a source of grave social

injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

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All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

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### 3. Equitable Distribution of Taxes

With far heavier taxes the need for equity in the tax system becomes more urgent.

In this war it will be necessary to tax more heavily all sections of the population who are above the subsistence level. All able to do so will have to contribute. But the fact that large additional taxes have to be imposed makes it more imperative than ever to follow the principle of taxing according to ability to pay.

I have frequently pointed out that there are numerous loopholes in the present tax structure which ought to be closed. Because some taxpayers use these to avoid taxes, the other taxpayers must pay more than they should. We can no longer tolerate these loopholes.

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It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a wartime economy, the country cannot tolerate undue profits. Wherever these occur, they should be recaptured.

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BORROWING

The expenditure program set out in this budget will make necessary not only substantially increased taxes but also greatly increased borrowings. These borrowings will be facilitated by the voluntary purchase of defense savings bonds on the part of a multitude of patriotic men and women who will cheerfully set aside some of their current income for their country. The borrowing will be facilitated also by the circumstances which are necessarily associated with a change from a peace to a war economy. The achievement of the all-out war production program will require drastic curtailment by allocations and other controls of new investment in non-defense plant and equipment; it will require deferment of replacements and even maintenance in these lines; it will require still further curtailment of production and consumption of many consumers goods. These measures will cut non-defense expenditures - both public and private - by many billions of dollars. This drastic curtailment of non-defense expenditures will add correspondingly to the private funds available for investment in Government securities.

With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing, we can finance our war effort without danger of disruptive inflation and without departing from our low interest rate policy.

COPY

December 24, 1941

My dear Mr. President:

On receipt of the enclosed memorandum, which I am returning herewith, I immediately got in touch with Harold Smith and he furnished us with a draft of a part of your budget message.

All of us in the Treasury have put our heads together and have consulted with Mr. Goldenweiser of the Federal Reserve staff, Mr. Richard Gilbert of Leon Henderson's staff, and Mr. Lauchlin Currie of your own office. I hope you will like what I am sending you.

In view of the tremendous importance of this budget message, I would appreciate very much having an opportunity to go over your message with you.

I have asked Harold Smith to go over this draft with me, and I am sure that he and I can get together.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Sent by Secret Service  
agent 12-24-41 - around 4:30 P.M.

Enclosures: positive photostat of  
President's memo to  
Sec'y dated 12/19/41;  
8 p. memo "Financing  
the War." - cc of letter  
to President and memo  
sent also.

Sent by Mr. Bell's office

DEC 24 1941

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4:10 P.M.  
Final Draft

FINANCING THE WAR

Victory in this war will demand expenditures on a scale for which there is no precedent in our history. Victory will call for sacrifices -- real and stern sacrifices -- on the part of every American, irrespective of occupation or income. If we are to furnish the weapons to the men who are doing the fighting, we shall have to exert all our strength, and we shall have to mobilize every possible dollar of our income.

The resources we need for victory will be supplied, whether guns or dollars. The task is huge, but it is within our powers.

Until this job is done, we will not talk of burdens -- of tax burdens or debt burdens. Instead we will talk of opportunity -- the opportunity to have a real part in the fight to preserve our freedom.

This is the spirit in which the American people will want to approach the problem of financing the war.

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Let me state briefly the basic objectives which I think should guide us in the formulation of a fiscal program for the war.

1. The revenue of the Government must be greatly increased to meet war expenditures. The maximum possible portion of the war cost must be met from taxation.

2. Inflation must be curbed,

3. The financial cost must be equitably distributed.

4. During wartime the Government must absorb all undue profits.

5. More flexibility should be introduced into our fiscal measures during the emergency.

6. Our fiscal policy must be directed toward the achievement of the utmost war production.

#### TAXES

##### 1. The Need for Additional Taxes

In the past 18 months this Nation, while building up its defenses, laid the foundation for a mighty structure of arms production.

- 3 -

In the fiscal year 1941 defense expenditures amounted to \$6.3 billion. We expect to spend upon our war efforts \$22 billion in the fiscal year 1942 and \$50 billion in the fiscal year 1943.

In the fiscal year 1941 Federal net receipts were \$7.6 billion. If there are no changes in our tax structure, such receipts are expected to be \$11.9 billion in the fiscal year 1942 and \$16.5 billion in the fiscal year 1943.

Thus it is estimated that, if no new taxes are enacted, the net deficit will be \$16 billion for the current fiscal year, and \$40 billion for the fiscal year 1943.

In these estimates allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit.

Such disparity between estimated revenue and estimated expenditure is far too great. We must have additional taxes.

## 2. The Menace of Inflation

Additional taxes are needed to combat inflation.

As we approach full utilization of our productive resources any considerable rise in prices would be an unqualified evil. Inflation is a source of grave social

- 4 -

injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Another part of such a program might be expansion of the social security system, which at a later date I intend to recommend for other and more basic reasons. Price control, allocations, rationing, and the regulation of consumer credit are other parts of such an integrated program.

All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in

- 5 -

preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

### 3. Equitable Distribution of Taxes

With far heavier taxes the need for equity in the tax system becomes more urgent.

In this war it will be necessary to tax more heavily all sections of the population who are above the subsistence level. All able to do so will have to contribute. But the fact that large additional taxes have to be imposed makes it more imperative than ever to follow the principle of taxing according to ability to pay.

I have frequently pointed out that there are numerous loopholes in the present tax structure which ought to be closed. Because some taxpayers use these to avoid taxes, other taxpayers must pay more than they should. We can no longer tolerate these loopholes.

Our tax laws contain a number of unintentional technical inequities and unfair discriminations. These are always objectionable, but with taxes at necessary wartime levels, it is urgent that the Government should, to the greatest extent possible, provide relief from them.

- 6 -

#### 4. Prevention of Undue Profits

It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a wartime economy, the country cannot tolerate undue profits. Wherever these occur, they should be recaptured.

#### 5. Flexibility in the Tax System

The rate of war expenditure, the size of the national income, the course of prices, and the extent and effectiveness of allocations and other controls cannot be accurately estimated far in advance. It is therefore impossible to determine now precisely how much additional taxes should be collected during the next 18 months. This is true even though there can be no dispute that the needs will be great. It is, accordingly, important that the Congress realize the unusually tentative character of all estimates here presented, and that it give consideration to the desirability of introducing into its tax legislation provisions which will make possible quick adjustments in the timing of tax rates and collections during a period when rapid changes in the fiscal and economic situation are occurring.

### 6. Relation of Production and Victory

In wartime when the life of the Nation is at stake sound fiscal policies are those which will help win the war. Sound war taxation not only must contribute to defraying the cost of weapons, but it should facilitate their production in every possible way.

In a war economy, labor, materials, and facilities must be shifted from the production of civilian articles to the production of weapons and war supplies. Taxes can aid in speeding these shifts by cutting non-essential civilian spending. The differing effects of various taxes, not only upon the demand for goods but also upon the production process itself, should be carefully considered when tax legislation is drafted.

### BORROWING

The expenditure program set out in this budget will make necessary not only substantially increased taxes but also greatly increasing borrowings. These borrowings will be facilitated by the voluntary purchase of defense savings bonds on the part of a multitude of patriotic men and women who will cheerfully set aside some of their current income for their country. These borrowings will be facilitated also by

- 8 -

the circumstances which are necessarily associated with a change from a peace to a war economy.

The achievement of the all-out war production program will require drastic curtailment by allocations and other controls of new investment in non-defense plant and equipment; it will require deferment of replacements and even maintenance in these lines; it will require still further curtailment of production and consumption of many consumers goods. These measures will cut non-defense expenditures - both public and private - by many billions of dollars. This drastic curtailment of non-defense expenditures will add correspondingly to the private funds available for investment in Government securities.

With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing, we can finance our war effort without danger of disruptive inflation and without departing from our low interest rate policy.

December 23, 1941

Dear Harold:

I am sending you herewith a copy of a  
 report to the President and the material that  
 you will send along with it.

I am holding myself in readiness to meet  
 you.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Harold G. Smith,

Director, Bureau of the Budget.

Sent by Secret Service Agent  
 12-24-41 - around 4:30 P.M.

Enclosures: cc of letter dated 12/24/41  
 from the Secretary to the  
 President with the memo  
 entitled "Financing the  
 War."

Sent by Mr. Bell's office

THE WHITE HOUSE  
WASHINGTON

December 19, 1941.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

I enclose memorandum from Harold Smith and have asked him to cooperate with you in letting me have a general outline of the tax policy or program for inclusion in my Budget Message.

F. D. R.

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C.

December 17, 1941

THE WHITE HOUSE

DEC 18 12 38 PM '41

RECEIVED

OFFICE OF  
THE DIRECTOR

MEMORANDUM TO THE PRESIDENT:

The proposed Budget Message for 1943 has gone through several drafts here in the office. It seems quite clear that the Budget Message should be used as a vehicle to set forth a more comprehensive statement of the fiscal situation and of fiscal policy than has ever been done before.

The Budget picture is affected by price control, priorities and allocations, credit control, as well as the obvious expenditure and revenue aspects. In view of a possible deficit of 38 billion dollars for 1943, based on present revenue measures, I feel that an integrated financial program should be incorporated in the Budget Message. I believe that it will give the country a feeling of confidence that such a program is being formulated for adoption.

We have already drafted the Message tentatively to include what we believe to be the general outline of the Treasury tax program. If you agree that there is advantage in a rather comprehensive statement of the fiscal situation, I will be glad to try to iron out the text with the Treasury in advance of presentation to you, in order to conserve your time.

*Handwritten signature*

12/24/41

301

77th CONGRESS }  
1st Session }

SENATE

{ DOCUMENT  
No. 152 }

REDUCTION OF NONESSENTIAL FEDERAL  
EXPENDITURES

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PRELIMINARY REPORT  
OF THE  
JOINT COMMITTEE ON REDUCTION  
OF NONESSENTIAL FEDERAL EXPENDITURES  
CONGRESS OF THE UNITED STATES  
PURSUANT TO  
SECTION 601 OF THE REVENUE ACT OF 1941  
TOGETHER WITH  
MINORITY VIEWS



DECEMBER 26, 1941.—Referred to the Committee on Appropriations  
and ordered to be printed

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UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1941

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

CREATED PURSUANT TO SECTION 601, OF THE REVENUE ACT OF 1941

HARRY FLOOD BYRD, Senator from Virginia, *Chairman*

ROBERT L. DOUGHTON, Representative from North Carolina, *Vice Chairman*

SENATE

WALTER F. GEORGE, Senator from Georgia.

ROBERT M. LA FOLLETTE, JR., Senator from Wisconsin.

CARTER GLASS, Senator from Virginia.

KENNETH McKELLAR, Senator from Tennessee.

GERALD P. NYE, Senator from North Dakota.

HOUSE OF REPRESENTATIVES

THOMAS H. CULLEN, Representative from New York.

ALLEN T. TREADWAY, Representative from Massachusetts.

CLARENCE CANNON, Representative from Missouri.

CLIFTON A. WOODRUM, Representative from Virginia.

JOHN TABER, Representative from New York.

HENRY MORGENTHAU, JR., *Secretary of the Treasury*

HAROLD D. SMITH, *Director of the Bureau of the Budget*

**LETTER OF TRANSMITTAL**

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CONGRESS OF THE UNITED STATES,  
JOINT COMMITTEE ON REDUCTION OF NON-  
ESSENTIAL FEDERAL EXPENDITURES,  
*December 24, 1941.*

The VICE PRESIDENT,  
*United States Senate, Washington, D. C.*

SIR: In accordance with title 6 of the Revenue Act of 1941, Public Law No. 250, Seventy-seventh Congress, as chairman of the Joint Committee on Reduction of Nonessential Federal Expenditures, it gives me pleasure to present to you the preliminary report of this committee, which I ask that you lay before the Senate of the United States, with a view to its being printed as a Senate document.

Respectfully submitted.

HARRY F. BYRD,  
*Chairman.*



## REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

DECEMBER 24, 1941.

Report to: **THE PRESIDENT OF THE UNITED STATES,**  
**THE VICE PRESIDENT OF THE UNITED STATES, PRESIDENT**  
**OF THE SENATE,**  
**THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.**

In accordance with title 6 of the Revenue Act of 1941, Public Law No. 250, Seventy-seventh Congress, a preliminary report herewith is presented by the Joint Committee on Reduction of Nonessential Federal Expenditures.

### LEGISLATIVE AUTHORITY

This committee was established pursuant to title 6 of the Revenue Act of 1941, approved September 20, 1941, which directed it to "make a full and complete study and investigation of all expenditures of the Federal Government, with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential, and to report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date."

### PROCEDURE

The committee has had the benefit of the testimony of the Secretary of the Treasury, a member of the committee, the Secretary of Agriculture, and various other officials of the Government regarding the possibility of specific savings in existing departments and agencies. It has had before it for study the report of the Director of the Bureau of the Budget, also a member of the committee, submitted in response to the request of August 28, 1941, from the Senate Finance Committee, as well as other data submitted directly to this committee by the Budget Bureau. The committee has received also suggestions of economies from civic agencies, taxpayers' clubs, and private citizens. It has collected, in addition, evidence from its own sources, and it has devoted considerable time to a survey of the problems. This report is made on the basis of all the information thus collected.

### INITIAL REPORT

Directed to report to the President and to the Congress "at the earliest possible date," the committee considers it highly desirable to present now a preliminary report. The committee emphasizes that this report is only its first, and that other departments, agencies, funds, programs, and items will be examined by the committee and treated in subsequent reports.

This is only a partial report. While the committee has worked diligently since its organization, the magnitude of the labor involved as well as the vital legislative matters before Congress in recent weeks have prevented due consideration to further reductions and eliminations, which will be reported on later. Subjects considered in this report are limited largely to those established originally as depression measures.

The committee believes that in view of the improved economic situation and the vital new war conditions the agencies of Government and the Members of Congress should have at the earliest practicable time the benefit of conclusions thus far reached by the committee, and any possible economies which now can be effected should not be deferred.

Before the war, economy in nonessential spending was important. Now it is vital. There is no room for nonessentials in a government stripped for action. Our united purpose is to produce sufficient armament and trained personnel to win this war. Nothing can be permitted to interfere with this objective. The American people are being asked to pay extremely burdensome taxes which will become greater; they are being asked to make great sacrifice and endure hardships. The Government should set the example.

The United States Treasury is facing the tremendous task of financing the war. We must decrease its difficulties, not increase them. All nonessential spending must yield to the needs of our defense program.

Strenuous efforts are being made to prevent serious price inflation. To continue consumer subsidies created during depression years without urgent necessity will pour fuel on a disastrous inflation fire.

The committee believes substantial reduction in nonessential spending would be of material aid in holding down inflationary price increases.

We shall have to draw on all our resources and accumulated wealth, as well as manpower to fight a long war. In addition to equipping our own armed forces and establishing at home our own defenses, we have undertaken to furnish military supplies of every description to all nations fighting the forces of aggression. We must continue this without stint. But it is a colossal obligation.

#### FEDERAL DEBT

We started this war with a direct Federal indebtedness of about \$55,000,000,000.

Today the ultimate cost of the war is unpredictable, but to date we have appropriated and authorized \$75,000,000,000 for national defense. This is only the beginning. Every dollar now added to the public debt without imperative defense need makes it more difficult for America to meet post-war period problems in both domestic economy and foreign trade.

In this titanic world struggle with totalitarian forces, democracies must not only conquer; they must preserve their democratic system. That means the preservation of solvent government. National solvency—difficult in this emergency and so essential to the preservation of the democratic system—is of no necessary concern to totalitarian governments.

Necessary expenditure of billions for national defense has changed abruptly the reasons and advisability for continuing certain agencies, services, and functions of government.

Amounts expended for defense soon will be so large as to obviate much of the necessity for spending in relief and other items for which the committee recommends elimination or reduction.

Judged by national income, estimated at \$105,000,000,000, 1942 will be the most prosperous year in American history. This may be compared with the national income of approximately \$82,000,000,000 in 1929. That is one reason to believe that much of the relief expenditure continued from the so-called depression years now can be eliminated. Continuation of public works and some other types of projects during the war emergency would require diversion of vital manpower and materials from defense to nondefense projects.

The Federal Government alone must pay the cost of national defense. For years the Federal Government has been carrying a heavy load of State and local responsibilities. The committee believes that during this emergency the States and localities should reassume, where necessary, responsibilities historically theirs.

#### THE FUTURE PROGRAM

In general, the committee will continue its investigation as follows:

1. It will continue its examination of all Federal expenditures to determine where further curtailment or elimination of expenditures can be made, in the light of defense needs, increasing industrial production and employment, and other factors.

2. It will examine further and in detail the activities of the departments and agencies of the Federal Government to determine whether all functions performed by departments and agencies are essential under existing conditions, whether duplications and corresponding functions can be consolidated, and the extent to which contraction can be substituted for expansion.

3. It will scrutinize Government-owned corporations to determine whether present loan policies are advisable in view of changed conditions, whether loans are being made efficiently, with proper regard to security, repayment and other terms, and whether salaries and expenses of such corporations are reasonable.

4. It will examine purchasing, classification, salaries, transportation, publicity and other items of expense and practice to determine whether they are being administered in an economical manner.

5. It will review all permanent agencies in an effort to determine the necessity and the efficiency of their administration and the advisability of more effective controls.

6. It will review defense expenditures and make recommendations for the elimination of waste and inefficiency in administration.

The committee's views on these subjects and possibly others will be embodied in subsequent reports.

#### RECOMMENDATIONS

##### 1. NEW ADVENTURES

The committee recommends that no new adventures or commitments in public works or costly Government programs be undertaken during the period of the war emergency, except those imperatively necessary to national defense.

The committee cautions against the futility of retrenching in existing nonessential spending and subsequently appropriating for programs or projects that could be deferred until after the emergency.

#### 2. CIVILIAN CONSERVATION CORPS, NATIONAL YOUTH ADMINISTRATION, OFFICE OF EDUCATION, WORK PROJECTS ADMINISTRATION

The committee recommends that the Civilian Conservation Corps, the National Youth Administration, and the national-defense training activities of the Office of Education be abolished, effective as soon as possible and not later than July 1, 1942, and that there be established in some suitable agency facilities for training persons for work in defense occupations; this activity to be limited strictly to national-defense work and confined to those fields and to numbers to be certified by the Secretary of War and the Secretary of the Navy as necessary for that purpose; also that there be merged in this new program any necessary part of defense training now under the Work Projects Administration as shall be certified by the Secretary of War or the Secretary of the Navy as necessary to national defense; and further that all portions of previously appropriated funds for these agencies now held in reserve by direction of the Bureau of the Budget (totaling \$132,000,000) be covered into the Treasury.

#### 3. WORK PROJECTS ADMINISTRATION

The committee recommends that there be appropriated to the Work Projects Administration the sum of not more than \$50,000,000 per month for 3 months beginning July 1, 1942. Any work now being carried on by the Work Projects Administration for account of national defense after July 1, 1942, should be carried on under the direction of the War and Navy Departments and the amount here recommended for the Work Projects Administration reduced accordingly.

The committee believes that with defense expenditures constantly increasing, Work Projects Administration appropriations should be on a quarterly basis beginning July 1, 1942, and that as employment increases the quarterly appropriations should be reduced accordingly.

#### CIVIL DEPARTMENTS

The committee recommends that every possible retrenchment be made in the administrative costs of the civil departments and agencies. There has not been sufficient time for the committee to investigate fully these administrative costs. This will be done as promptly as possible.

The Budget Bureau report before this committee estimates that under a plan to reduce Federal nondefense spending  $1\frac{1}{2}$  billion dollars, the allotted reduction in regular appropriations to civil departments and agencies would be \$100,000,000. This would reduce total appropriations from \$830,000,000 for civil departments to \$730,000,000.

The cost of publicity activities in the civil departments and agencies is estimated by the Bureau of the Budget to be at least \$30,000,000, and should be carefully reviewed for reductions and eliminations.

#### 5. AGRICULTURE

The committee at this time considered in detail expenditures by the Department of Agriculture, among the regular departments, because of the large programs and far-reaching activities established within

and transferred to that Department during the depression period. The committee based its study on material furnished by the Secretary of Agriculture, the Bureau of the Budget and its agricultural examiners, and by Department officials who work with the programs and activities. This study will be continued and as a partial report the committee now recommends:

(a) Elimination of all land purchases by the Department of Agriculture during the period of the emergency.

(b) Review of administrative costs of the Department of Agriculture and elimination of all unnecessary overhead, and especially the wages and overhead incident to the employment of nearly 100,000 Agricultural Adjustment Administration committeemen.

(c) Reduction of \$100,000,000 in the appropriation for "Exportation and domestic consumption of agricultural commodities" program.

(d) That rates and premiums of the Federal Crop Insurance Corporation be made actuarially sound in a manner to carry losses and that the Corporation be made self-supporting.

(e) Abolition of the farm-tenant program with an annual administrative cost of \$7,122,570 and authorization to borrow \$50,000,000.

(f) Abolition of the Farm Security Administration with \$70,500,000 in direct appropriation and authority to borrow \$120,000,000; its national-defense activities, to the extent that they are necessary, to be transferred to some more suitable agency.

(g) Deferment of rural electrification expansion to the extent that it conflicts with national-defense priorities on materials.

#### 6. FEDERAL HIGHWAY AND PUBLIC WORKS

The committee recommends that during the emergency one-half of the Federal highway appropriations and authorizations be deferred, at a saving of \$64,000,000.

The committee believes all appropriations and authorizations for all public works, including Federal dams, flood control, reclamation projects, and public buildings not directly essential to national defense should be deferred until after the emergency.

Such appropriations and authorizations, including highway funds, total approximately \$160,000,000. These items immediately should be reviewed carefully.

#### 7. RESERVES IMPOUNDED

The committee recommends that all funds impounded by the Bureau of the Budget from previous appropriations and held in reserve now be covered back into the Treasury.

The committee recommends that legislation be enacted which would authorize the Director of the Budget to set up reserves out of any future appropriation, at such times and in such amounts as the Director may determine.

#### 8. GOVERNMENT CORPORATIONS

The Government, more and more, is relying upon the thirty-odd Federal corporations for financing both defense and nondefense operations. Most of the funds thus used, amounting to many billion dollars, are not subject now to the usual budgetary and audit control, nor does Congress have control over disbursement of funds through

these corporations, except in blanket authorizations. Receipts derived from collections on loans made by these corporations return to their credit. They are subject only to control by the corporations themselves outside of any congressional jurisdiction.

These corporations already have authorization substantially to obligate the credit of the Government. These obligations constitute an indirect Federal debt to the extent that they are guaranteed by the Federal Government and that they are not met by the institutions themselves.

The committee recommends coordination of these corporate activities; legislation subjecting the corporations to budgetary and audit control; and that Congress assume tangible and direct control over their funds by means of its constitutional appropriating machinery.

The committee will deal with the disbursements of Government corporations and make more specific recommendations in subsequent reports.

#### TABULAR RECAPITULATION

If the specific recommendations by the committee are adopted, the appropriations for the next fiscal year will be less than in the current fiscal year by the following amounts:

	Savings
Civilian Conservation Corps (abolished).....	\$246,960,000
National Youth Administration (abolished) (nondefense).....	91,767,000
Work Projects Administration (present appropriation \$875,000,000 annually). Recommendation for quarterly appropriation including defense activities for first 3 months of next fiscal year of \$50,000,000 monthly and further reduction as employment improves due to defense expenditures should save at least for the year.....	100,000,000
<b>Agriculture:</b>	
Deferment of land purchases.....	3,000,000
Savings in overhead expenses of Department as indicated.....	50,000,000
Reduction in appropriation for "Exportation and domestic consumption of agricultural commodities".....	100,000,000
Farm-tenant program (abolished) (cash).....	7,122,000
Farm-tenant program (abolished) (loan authorization cancellation).....	50,000,000
Farm Security Administration (abolished) (cash).....	70,500,000
Farm Security Administration (abolished) (loan authorization cancellation).....	120,000,000
Public works and Federal highway: One-half deferment in public roads.....	64,000,000
<b>Other public works:</b>	
Deferment of public buildings for nondefense.....	43,164,000
Deferment of Department of Interior items.....	26,727,000
Deferment of rivers and harbors and flood control items.....	27,835,000
Cash savings.....	1,131,075,000
Cancellation of loan activities.....	170,000,000
<b>Total.....</b>	<b>1,301,075,000</b>

In addition, if funds impounded by the Director of the Budget were covered into the Treasury by legislative action, as this committee recommends, there would be immediate savings of \$415,890,061.

These savings specifically recommended are partial in scope and leave a field of economies in which further substantial reductions will be recommended.

In the field for future investigation by this committee, where no recommendations are as yet made, are reductions in administrative costs of civil departments as referred to above and noted by the Director of the Bureau of the Budget in his report to the Senate Finance Committee. The committee has lacked time for investigation into many other expenditures which are and will be under study.

The committee is deeply grateful, especially for the cooperation of Hon. Henry Morgenthau, Jr., the Secretary of the Treasury, and Hon. Harold D. Smith, the Director of the Bureau of the Budget, as members of the committee, and for the expert information which they have made available to the committee. The committee is grateful also for the cooperation of the heads and officials of the various departments in the committee's deliberations.

This preliminary report is based upon the great amount of factual information, testimony, and other documentary evidence which will be incorporated from time to time in additional forthcoming reports.

HARRY F. BYRD,

*Chairman, member Senate Finance Committee.*

ROBERT L. DOUGHTON,

*Vice chairman, chairman House Committee on Ways and Means.*

HENRY MORGENTHAU, JR.,

*Secretary of the Treasury.*

(Subject to qualifications as stated in his letter, which is attached.)

CARTER GLASS,

*Chairman, Senate Committee on Appropriations.*

WALTER F. GEORGE,

*Chairman, Senate Committee on Finance.*

(See attached comment.)

KENNETH MCKELLAR,

*Democratic ranking member,  
Senate Appropriations Committee.*

CLIFTON A. WOODRUM,

*Democratic ranking member,  
House Appropriations Committee.*

THOMAS H. CULLEN,

*Democratic ranking member,  
House Ways and Means Committee.*

ALLEN H. TREADWAY,

*Republican ranking member,  
House Ways and Means Committee.*

JOHN H. TABER,

*Republican ranking member,  
House Committee on Appropriations.*

GERALD P. NYE,

*Republican ranking member,  
Senate Committee on Appropriations.*

(Approves recommendations 1, 2, 3, 4, 6, 7, and 8, but makes exception to recommendation 5. See attached comment.)

Senator George's comment:

In my opinion the defense activities of the National Youth Administration and educational activities relating strictly to defense activities in the Bureau of Education should be continued in the agencies respectively unless a substantial saving could be made by combining the two.

## Senator Nye's exception:

I take exception respecting recommendation No. 5, relating to reductions in the Department of Agriculture.

While I am confident that large savings can be accomplished in that Department, I am not ready to recommend just where and in what amount the savings shall be undertaken, without chance for searching study of the subject of effect in each recommended reduction.

We must keep agriculture strong and ready for the adjustment that must follow the war. When we let agriculture down during and after the last war, we contributed largely to the economic break-down which finally encompassed the whole country. We must not repeat that experience.

Congressman Clarence Cannon, chairman of the House Appropriations Committee, participated actively in the preparation of the report, and was unexpectedly called home. The opportunity was not available to present the report to him for signature.

TREASURY DEPARTMENT,  
Washington, December 22, 1941.

HON. HARRY F. BYRD,

*Chairman, Joint Committee on Reduction of  
Nonessential Federal Expenditures, United States Senate.*

MY DEAR SENATOR: I am willing to sign the report of the Joint Committee on Reduction of Nonessential Federal Expenditures subject, however, to my disagreement with the recommendations under "Agriculture." I disagree with the recommendations with respect to agriculture and in lieu of the recommendations contained in the committee's report, I desire to suggest the following:

When I appeared before the committee on November 14, I stated that expenditures included in the Budget under the farm program which was initiated in 1933, after the catastrophic fall in prices in 1932, were designed mainly to meet conditions involving low prices for farm products, surplus production, and loss of export markets. Present conditions are radically different from those which the farm program was designed to meet. It is estimated that in 1941 the farmer's share of the national income will be 20 percent greater than in 1932, notwithstanding a reduction of almost 10 percent in the proportion of the farm population to the total population of the country. Although governmental aid was necessary in order to bring the farmer's net income from 3½ billion dollars in 1932 up to 8½ billion dollars or more in 1941, certainly after having reached this goal there does not appear to be any reason to continue spending at the same rate. The farmer is getting his share of the total expenditures made by the Government, as the increase in his net income indicates. In addition, there are substantial benefits that will accrue to the farmer from the lend-lease program.

In view of all these circumstances I feel at this time that we should make drastic cuts in our agricultural expenditures and I would recommend that the Secretary of Agriculture be required to operate the agricultural program included in the Budget with an annual appropriation of \$500,000,000 less than authorized for the current fiscal year.

With respect to that part of the agricultural program carried on with funds borrowed from the Reconstruction Finance Corporation, I would want the committee to make a more thorough investigation of

these activities before I make any definite recommendation for reductions in the amounts available for this purpose.

I also raise a question about the recommendation (par. 1 of item No. 7, "Reserves impounded") to cover into the Treasury all reserves set up by the Bureau of the Budget. Reserves are set up primarily to meet unforeseen contingencies and to avoid deficiencies. Many times these reserves result in large savings. It seems to me that if a general recommendation of this kind is adopted it would defeat the very purpose for which reserves are created.

Sincerely yours,

HENRY MORGENTHAU, JR.,  
*Secretary of the Treasury.*

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D. C., December 23, 1941.

Hon. HARRY F. BYRD,  
*Chairman, Joint Committee on  
Reduction of Nonessential Federal Expenditures,  
United States Senate.*

MY DEAR SENATOR: While I have cooperated with the committee by making available the facilities of the Bureau of the Budget, in view of my position as head of the Bureau and my official participation in the preparation of the President's forthcoming 1943 Budget to be submitted January 3, I obviously cannot join in a report which may contain recommendations at variance therewith.

Sincerely yours,

HAROLD D. SMITH, *Director.*

## MINORITY VIEWS OF MR. LA FOLLETTE

[Pursuant to sec. 601 of the Revenue Act of 1941]

The sweeping recommendations of the majority of the committee are hasty and unwarranted. Although in presenting this dissenting report it is my purpose to deal only with some of the major items covered in the majority report, the brief hearings and scattering testimony, taken largely from secondary sources, and carefully removed from public scrutiny by executive sessions and confidential hearings, do not justify in my opinion the conclusions reached by the committee.

Congressional approval of the recommendations would knock some of the major props of Federal support out from under our social structure in the lower income levels—at a time when national unity and national strength require that high morale and potential abilities be maintained and strengthened among the unfortunate one-third of our population which has just cause for dissatisfaction with an economic and social system that has treated them shabbily. The various recommendations make a "whipping boy" of minor abuses and deficiencies in established Federal social programs which have proved their worth and need, while absolving or overlooking the major abuses and costly maladministration and much larger sums involved in the defense and war expenditures.

### WAR EXPENDITURES NO ANSWER

War expenditures are no answer to the problems of public assistance. The direct and indirect benefits of this flow of Government money are meager and remote to many classes of people in many areas of the country. No matter how great, war expenditures can in nowise substitute for or alleviate the need of the bulk of present public assistance. To assume otherwise, as does the majority of the committee, is simply to deprive needy worthy citizens of aid and to depreciate our present inadequate standards of public assistance.

Why war expenditures are no effective relief can easily be seen. In the first place, defense contracts have been awarded in a very distorted pattern in comparison with normal industrial activity. It is estimated that 12 States hold 71 percent of the value of all contracts; that 20 industrial areas have 59 percent. A few months ago it was shown that 56 corporations had 74 percent of the total value. In the second place, certain groups simply cannot share in defense employment for obvious reasons of unemployability, lack of requisite training, social or economic ties which prevent migration to job openings, or, even physical incapability or poor health which might very well be the result of present inadequate public assistance.

It is inconceivable that a Government which is sorely pressed now for capable men and women in military and civilian capacities should

exercise such short-sighted judgment as to eliminate or drastically cut those very activities which are rehabilitating and augmenting our potential manpower, by various means of public assistance.

#### INADEQUATE EVIDENCE

The recommendations for drastic curtailment of the social programs now administered by the National Youth Administration, Civilian Conservation Corps, and Work Projects Administration were made on the basis of about 10 hours of hearings, less than 50,000 words of testimony on this complex problem of public policy. More than 14 times as much testimony was taken by the House and Senate Appropriations Committees in making their recommendations for the current fiscal year. Similarly, the proposed changes in the agricultural program are based on less than 25,000 words of hearings. In complete contrast, the House Appropriations Committee alone took about 1,200,000 words of testimony on the 1942 agricultural appropriation bill.

The proposed reductions are wholly disproportionate to the respective values of the various Government services. It appears that they are based more on considerations of what can be most easily curtailed or eliminated rather than considerations of relative value of the services or simple fairness to all parts of the population. The underprivileged youth, the faltering or incapacitated or inefficient worker, the farmer and others who have never had a chance to get started on the right road to help themselves because of lack of initial capital or initial training—all these, who have been receiving some, though meager, aid from the Federal Government would be deprived of their chance to help make this country strong. It is sheer folly to build up the military defenses and at the same time neglect the problems of hunger and privation of millions of our Nation.

#### FUTURE NEEDS

Equally important to remember is the fact that post-war needs will require, more than ever before, well-perfected machinery to cope with post-war social and economic problems. To wreck the machinery now only to have to rebuild it from the ground up later may in the end be more costly than any immediate saving.

The Budget Bureau's initial report to the committee (which was prefaced with the warning "it is apparent that many of the indicated downward revisions would seriously impair the defense effort and other vital governmental activities" and with the explanation "it must be emphasized that the reductions discussed are in no sense a product of the normal budgetary process of request, review and recommendation") suggested various allocations for hypothetical savings of 1 billion dollars, 1½ billion, and 2 billion. It is significant to note that even under the most severe curtailment program to which consideration was given by the Bureau, the Bureau did not recommend curtailments as severe as those now proposed by the committee for certain items.

For example, if the Budget Bureau were forced to achieve a billion-dollar reduction under the 1942 Budget (which apparently would be inadvisable in its own opinion), it would reduce the National Youth Administration and Civilian Conservation Corps by \$185,000,000.

Yet, this committee proposes to make a slash of almost double that amount and wipe out the whole so-called nondefense program. Under the same conditions, the Bureau of the Budget would cut the Farm Security program by \$33,000,000. This committee recommends \$77,000,000—an unreasonable elimination of rural rehabilitation functions which have consistently met with the approval of Congress.

The greatest foe of democracy, the greatest threat to our domestic strength—a vital and necessary second line to military defense—is poverty and underprivilege. The Farm Security Administration, the National Youth Administration, the Civilian Conservation Corps, and the Work Projects Administration—each in its respective fields has waged war with some success against these antidemocratic forces. This is no time to discontinue a job that is so essential to the preservation of the Nation's human resources. We must not, in our sincere efforts to economize on nonessentials, blind ourselves to the dangers of losing what we cannot afford to lose.

#### RURAL POVERTY AND DISTRESS

Look at the facts, first, as to rural poverty and distress: It is estimated that in 1940—only last year—about one-fourth of all farm families, or 1,500,000 of them, made \$400 or less from their farms, including the value of farm-produced products for home consumption. This is \$2 or less per person per week. Another 1,000,000 farm families made less than \$750 a year, a weekly income of \$3 or less per person.

Naturally, improved farm prices have helped many of them increase their incomes. But a vast proportion of the Nation's low-income farm families actually produce a very small portion of the Nation's commercial farm output. They do not have the resources. They are out of the running.

Even in 1929 the lower half of American farmers produced for only 10 percent of the market for all commercially traded farm products; the other 90 percent of the market was supplied by the upper half of the farmers. In 1935 about a majority of our farms included less than one-sixth of the Nation's farm land. These small farmers do not profit much from better farm prices. They are chronically disadvantaged.

About one-third of the Nation's farm families do not have access to a land resource (either directly as operators or individually as laborers) sufficient to support a decent living. Moreover, the trend toward diminishing resources for these people has been unmistakable.

These are indisputable facts. Their meaning to this Nation in time of all-out war is obvious. We cannot afford to abandon our efforts to try to cope with rural poverty.

One of the most serious results of poverty is poor health. Thousands of our farm families need better food but they cannot get it without help. Thousands need medical care but they cannot afford it.

Poor health on the farm means loss of the Nation's manpower. Most people know that about one-third of all Army volunteers are rejected for physical disability. It is also important to remember that a larger proportion of enlistments have come from rural areas. These areas have contributed more than their share to the Nation's ill health.

Americans must not overlook, either, that it is in the rural areas that the Nation's highest birth rates exist. A greater and greater

portion of this democracy's future population is coming from the farm. And it is an established fact that the highest birth rates are in the poorest rural areas—the areas whose problems are being tackled by the Farm Security Administration today. This attack cannot be relaxed if we are to guarantee a strong democracy tomorrow.

It is true, of course, that there is some movement out of these areas. The tragedy of this migration, however, is twofold. In the first place, the people who move out carry with them the effects of their years of poverty and privation in disease, low morale, and backwardness. They become a net liability to the Nation even after they move. In the second place, the out-migration is not fast enough. The areas of the most acute farm problems are areas in which the population continues to grow, even in face of accelerated economic activity in towns and cities. There is no full employment in submarginal rural America.

In addition to the chronic forces, there have been adversities of a catastrophic nature that would have wrecked thousands of farmers if it had not been for assistance by the Federal Government through the Farm Security Administration. Droughts, floods, and similar disasters have hit great numbers of farmers within the past decade. In each instance they have been able to turn to the Government for aid through a machinery that exists in the Farm Security Administration.

#### WHAT THE FARM SECURITY ADMINISTRATION HAS DONE

No other agency in our Government has a more impressive record of helpful service to the people of this Nation than the Farm Security Administration. This agency has tackled the problems of rural poverty at the roots, where the strength of democracy lies.

In the past 6 years the Farm Security Administration has made rehabilitation loans to more than 900,000 low-income farm families to enable them to buy necessary operating goods, better use their resources, and add to their productive capital. It has taught them how to produce their own food in sufficient quantities for good health. It has shown them how to farm so as to save the land and increase their production. It has taught them skills and new methods of farm and home management.

As a result of these rehabilitation loans, which are but one of the phases of the Farm Security Administration program, these low-income families have increased their annual net incomes by a total of more than \$75,000,000, or 35 percent, over the year before coming on the program. In addition, they have increased their net worth—the total value of their belongings and productive equipment, over and above all debts including their loans from the Government—by nearly \$80,000,000 or 21 percent.

At the heart of this great record has been the families' own efforts to produce their own food and feed. These families in 1940 increased the value of the goods produced for farm and home use by more than 60 percent over the year before coming on the program. In their stock pile of healthful food during 1940 was an average of 391 gallons of milk per family, 266 quarts of fruits and vegetables canned, and 391 pounds of meat preserved.

Moreover, these families increased the land resources at their disposal and added to their stock of tools and equipment and livestock with which permanent rehabilitation is made possible.

The Farm Security Administration has also helped more than 22,000 tenant farm families to become owners as a result of the tenant-purchase program. The tenant-purchase program has brought the American dream of farm and home ownership to families that otherwise would not have been able to achieve it.

With tenant purchase loans these families have bought family-type farms capable of providing them with a decent living. Costs are spread over a 40-year period. A recent report shows that this Government activity has the remarkable record of repayments of 96.5 percent of principal and interest due as of June 30, 1941.

One of the truly remarkable features of the Farm Security Administration program is the smallness of its cost. It has been estimated that the cost of rehabilitating a disadvantaged farm family on the Farm Security Administration program is less than \$75 a year. This figure includes the expenses of teaching the families new and better farming methods, helping them get better leases, losses on all loans advanced to them for livestock and equipment, grants made for direct subsistence purposes, and total administrative expenses.

This figure is all the more remarkable when compared with the expense of maintaining a farm family on work relief. This would amount to at least \$800 a year, and the family would be little better off after the year's end. Rehabilitation provides for long-run security.

In this connection, an appraisal of Secretary Morgenthau is appropriate. In a statement to the committee under date of November 14, 1941, he said—

I should like it understood that in making the suggestion that this class of farm expenditures should be reexamined, I do not refer to the bulk of activities undertaken by the Farm Security Administration, inasmuch as the need for much of their expenditures is, in my opinion, still urgent.

Just as I suggested earlier that there should be no reduction of expenditures for the help of the undernourished, so I believe that there should be no reduction in our help of the sharecroppers and farm tenants who are in urgent and continuing need of economic rehabilitation.

#### FAST CONGRESSIONAL ATTITUDE

The action of this committee in recommending the elimination of the activities of the Farm Security Administration stands in direct contradiction to the consistent and steadfast policy of the Senate and the Congress in extending aid to low-income farmers.

As early as June 24, 1935, the Senate passed S. 2367, which had for its purposes the promotion of more secure occupancy of farms and farm homes, the correction of the economic instability resulting from some forms of farm tenancy, and the establishment of a rural rehabilitation program. In the following year the work of the Resettlement Administration, which had been set up by Executive order, was recognized in the Bankhead-Black Act of June 29, 1936.

On July 22, 1937, the Bankhead-Jones Farm Tenant Act (50 Stat. 552) was enacted to encourage and promote the ownership of farm homes, and authorized the making of rehabilitation loans to farm

owners, farm tenants, farm laborers, and sharecroppers. This act created the Farm Security Administration, which took over the work of the old Resettlement Administration.

The Bankhead-Jones Farm Tenant Act was based largely on the recommendations of the President's Committee on Farm Tenancy which had made an exhaustive report on the problems of underprivileged farmers, with recommendations to Congress, in 1937. This committee was made up of a representative group of American leaders from all walks of life who were cognizant of and interested in the problems of rural people. The committee's report recommended the need for a continuing Federal organization to aid in alleviating these problems.

Since the establishment of the Farm Security Administration, the Senate has passed legislation aimed at greatly expanding the activities of the Farm Security Administration in the promotion of farm ownership. On June 28, 1939, the so-called Austin amendment to the Bankhead-Jones Farm Tenant Act was passed by the Senate providing that loans be made not only to enable small tenant farmers to acquire farms and make necessary repairs and improvements, but also to enable them to refinance existing mortgages on farms.

On July 6, 1939, the Senate passed S. 1836, the so-called Lee bill, providing for Government-insured loans to farmers, the encouragement of sale of farms held by absentee owners to farm tenants, and the making of long-term, low-interest-rate loans on farms.

On July 10 of the same year Senator Barkley introduced S. 2758 providing for the construction and financing of self-liquidating Government projects, including a total of \$500,000,000 for loans to enable farm tenants to become owners.

Throughout the years the Senate and the Congress have given interest and support to the program. The committee's present recommendation is an about-face.

#### FEDERAL AID TO YOUTH

Another major category of Federal assistance to the underprivileged is the aid for needy youth, administered by the National Youth Administration and Civilian Conservation Corps. The majority of the committee has seen fit to recommend that the aids be discontinued and the programs and organizations be abolished except so-called defense activities that are to be continued under the supervision of "some suitable agency".

The recommendation is based on a dangerously false conception of defense activities and upon a mistaken belief that the war situation permits the Federal Government to shirk obligations which it could not afford to neglect in peacetime. If it is necessary to preserve the morale of youth when the Nation is not in danger, it is doubly important when the national security is at stake. What is more, these agencies can and have prepared the youth of the Nation to fill more capably their places in the civilian and military establishments of the country.

The elimination of those activities which are not included in the narrow definition of defense training would have a serious effect upon the morale of thousands of young people and their families.

For example, school-lunch projects operated by such agencies as the Work Projects Administration and National Youth Administra-

tion are helping over 3,000,000 children in poor families with highly beneficial results in health and morale. Many other National Youth Administration activities, such as public health and hospital work, assistance in nursery schools for children whose mothers must work, and similar activities, are positive contributions—much more than is generally realized—to the morale and well-being of the people who must produce the munitions and materials of war. To eliminate these functions would be a step in the wrong direction.

The Nation's hospitals and public health services, overburdened in peacetime, are now of unique importance to keep workers on the production line. Twelve thousand young people are receiving experience and training in hospital and health work through the National Youth Administration program, and many thousands more are needed to meet the increasing need for health and hospital services, as well as to replace the people in these occupations who are going to the military services and overseas.

With more married women working, and the consequent problems that are arising in the communities of war industries, the need for adequate care of children of working mothers is increasing rather than decreasing. The States and cities have never undertaken to provide in any adequate way for the day care of preschool children, and the facilities of private agencies are already overburdened. If we are to take advantage in our war industries of the skills of mothers we must provide at least minimum facilities to care for their small children while they are at work.

Both the National Youth Administration and the Civilian Conservation Corps, by giving inexperienced youth the opportunity for work experience and preemployment training, are providing our war industries with a supply of qualified workers that would not otherwise be made available. During the 11-month period January through November, 1941, nearly 400,000 youth were enabled to leave National Youth Administration projects to take private employment. The Civilian Conservation Corps, similarly, is at present supplying private industry with 8,000 to 10,000 young men monthly—young men who have learned the rudiments of work training and experience and whom employers praise highly. Those who have or will become a part of our armed or naval forces are better material because of their training in the National Youth Administration or Civilian Conservation Corps. General Marshall is authority for the interesting statement that one-fourth of all the cooks in the Army are former Civilian Conservation Corps cooks, where a large share of them received their initial training. This record is concrete evidence that industry and Government want and need workers with National Youth Administration and Civilian Conservation Corps work experience.

#### NATIONAL YOUTH ADMINISTRATION STUDENT-WORK PROGRAMS

The recommendations made by the majority of this committee include elimination of the National Youth Administration student-work program. This is a recommendation for the scrapping of a program that has helped over a million low-income families and that is now affecting nearly 400,000 such families. Through this program, education has been made more effectively free to families that cannot afford to maintain their children in school. Needy

students, selected by local school officials, are now given part-time work so they can earn sufficient wages to remain in school and continue their education. Payments average about \$4.50 a month in high schools and \$12.50 in colleges. The average annual income of the families of these students, in the academic year 1939-40, was less than \$650, with 20.9 percent earning less than \$300 and 67.4 percent having annual incomes of less than \$900.

The Federal Government has not developed a single program that reaches and assists so many families and individuals at so low a cost per person benefited. The \$23,100,000 that was originally appropriated for this program during the current fiscal year would have reached over 500,000 low-income families through the students that would be employed. Over 90 percent of the schools in the country, 1,000 colleges and 27,000 high schools, are participating in the program. Each one of these schools and colleges will be vitally affected by any decision to eliminate the National Youth Administration student-work program, and the effect on the morale and physical well-being of the students and their families will be anything but favorable.

#### DEFENSE TRAINING

Placing these defense-training activities under some different agency (as the majority of the committee recommends) would not increase the training facilities of the country. Nor would it eliminate any so-called duplication between the training programs of the several agencies engaged in training. The fact is that the National Youth Administration training program and the training programs operated under the Office of Education supplement and strengthen each other, rather than overlap. The National Youth Administration program reaches youth who have left school and are between the ages of 17 and 24. The training they are given on National Youth Administration projects is of a preemployment production type that gives them actual experience in the use of tools and machinery, and builds the skills basic to good workmanship. The vocational schools are concentrating their efforts upon up-grading and refresher training, to enable persons with previous work experience to acquire additional and to polish up rusty skills. Schools are also providing classroom instruction of a preemployment character to supplement the work experience the youth obtains on the National Youth Administration project. Thus, the youth on the projects learn by doing a job and by receiving related training in the schools. He has the benefit of both practical work experience and classroom instruction. This combination represents the flexible and practical type of training that industry needs. The function of each type of training, on-the-job training, and classroom instruction, is clearly defined and there is no duplication of effort.

If the National Youth Administration training activities are placed under some other agency, the same type of activities would have to be carried out or the whole training program would suffer. The schools, however, which are already overburdened by their present load, would have to assume the additional administrative and supervisory functions involved in the National Youth Administration program, additional functions that they are not able to undertake. It would be detrimental to the best interests of the school system to sadden them with this additional burden.

The present geographical distribution of the vocational-school facilities of the country also furnishes reasons for rejecting the recommendations of the majority of this committee. Vocational schools are expensive to establish and maintain, and in spite of Federal aid in the past, vocational school facilities tend to be located in the urban and wealthier sections of the country. Ten States have over 70 per cent of the full-time vocational-school facilities in this country. There exist large sections of the country, particularly in the South and the Midwest, where vocational school facilities are relatively scarce, and, what is equally important, where there are large numbers of youth who cannot afford to attend the schools that are available. It is in these sections, where few contracts for war material have been let, that the need for a program that provides the training and wages available on National Youth Administration projects is as vital now as it ever was.

The National Youth Administration has established a highly developed training mechanism that reaches into all sections of the country, rural as well as urban. Before its recent drastic reduction, National Youth Administration projects were operating in all but 250 of the counties of the United States. Together with the school facilities, the National Youth Administration provides a training system that taps the pools of unused labor supply and makes them available for work in war industries. By giving these youth a chance to acquire preemployment training, and then guiding them, through the State employment offices, to areas where their services are needed by war industries, disorganized mass migrations of workers are reduced, thus helping eliminate the chaotic problems of bad housing and overcrowded conditions that already characterize too many defense areas.

#### OTHER BENEFITS OF THE YOUTH PROGRAMS

The benefits of the various Government youth programs can be measured not only in benefits accruing to the youth but also in tangible physical accomplishments of benefit to the Nation as a whole. The Civilian Conservation Corps, for example, has planted 2½ billion trees that will be worth \$260,000,000 in commercial timber 25 years from now if we maintain fire protection. Soil-erosion control has been effected for 25,000,000 acres of land, with more than 5,000,000 dams to check the rush of water and mud. The value of National, State, and local parks and forests has been immeasurably enhanced. Lodges, bridges, cabins, and dams involving sturdy, difficult construction work have become notable additions to public vacation lands, and have provided first-class experience in the basic elements of carpentry, stone masonry, concrete work, and many other occupations so essential now to national defense.

#### WORK RELIEF PUBLIC ASSISTANCE

The committee recommends a substantial reduction in general public assistance in the form of work relief. Unfortunately, the present high levels of employment and production have given the erroneous impression that Federal work relief is now unnecessary. The complete facts tell an entirely different story. According to best

available estimates, unemployment in October approximated 4,000,000 persons. Only 1 out of 4 was on the Work Projects Administration program, and at least twice as many were eligible on the basis of present standards.

Because of technological advance and a steady growth of the labor market, the number of unemployed now is vastly in excess of that in comparable periods of high production. Although depending upon which of several widely different estimates are used, it appears likely that the present level of unemployment is at least three or four times as great as 1929.

An ominous factor in the present situation is the portending priorities unemployment arising out of raw material shortages. Various careful studies have indicated from 1½ to 3 million workers will be displaced during the transition from civilian to defense production. Now that more recent events have indicated an accelerated diversion of raw materials from civilian industries, it appears these former estimates are understatements.

Except for unemployment compensation, which will cushion only a part of the impact, because many workers are eligible for little or no compensation, there is no Federal program which can take care of these people until and if they receive defense employment, other than Work Projects Administration.

As for the outlook for defense employment, it cannot be emphasized too strongly that the awarding of defense contracts has been very spotty in geographic distribution. As stated previously, 12 States hold about 71 percent of all the defense contracts; 20 industrial areas with only 26 percent of total Work Projects Administration employment hold 59 percent of the defense contracts. The present indications are that of job openings in the next year 93 percent will be concentrated in 21 States; 50 percent will be in 6 States.

The relative unemployability of many persons is another factor. Advancing age, particularly, may be a severe handicap in reorientation and learning a new job. It is highly significant that the average age of those persons working for the Work Projects Administration is now about 43, as compared with an average age of 37 a few years ago.

That the States and localities are unable to carry this load is best attested by the data on general relief which show that recipients are receiving niggardly payments. Furthermore, local public welfare resources are being seriously affected in some areas by Federal purchases of large tracts of land or the building of Federal production plants that are not taxable by State and local governments, although greatly increased local costs are incurred by the influx of defense workers. In short, the national emergency has aggravated a situation that was already serious.

Still another factor bearing on the situation is the increased cost of living. Whereas other groups in the population can tighten their belts a notch when confronted with rising prices, increased taxes, and the like, those living on Work Projects Administration wages cannot reduce their standard of living without impairing health and physical well-being. Hence, it is only proper that Work Projects Administration wages must in some degree follow increases in cost of living (such adjustments have already been made) but with each increase of that nature, the aggregate fund must be increased to take care of any given number of recipients.

Finally, it must not be overlooked that Work Projects Administration activities to a large extent are directly tied in with national defense. More than one-third of the total number on the rolls, about 350,000 persons, are engaged in various defense projects: In connection with military posts; airports; sewer and water systems for military cantonments; construction of strategic roads, sidewalks, and communication lines; and even reclaiming of land for military uses. Were it not for the extensive airport and airway work of the Work Projects Administration in past years, aviation in the United States would not have progressed as it has.

#### SURPLUS MARKETING ADMINISTRATION

The majority of the committee has recommended a cut of \$100,000,000 in the funds for the various programs of the Surplus Marketing Administration—or a reduction of almost 45 percent in the total funds available this year from customs receipts and direct appropriations (\$98,000,000 and \$125,000,000, respectively), for the food-stamp plan, cotton-stamp plan, school-lunch program, and direct distribution of surplus commodities to needy people. The recommendation is made on the theory that Government food purchases under the lend-lease program obviate the need for continuation of the domestic programs at present levels.

It is true that lend-lease buying has bolstered prices of certain farm products (it can even be said that some prices and some production have been raised and distorted too much for the ultimate good of the producer) but this in itself is no justification for scuttling the domestic program.

The Surplus Marketing Administration program is predicated on two basic considerations: (1) To provide stable and adequate markets for farm produce, and (2) to supply nutritive, health-giving foods, and cotton clothing, to millions of undernourished and under-clothed fellow citizens. Lend-lease buying helps to accomplish the former, but it does nothing to help our own urban populations suffering from lack of food or clothing. Nor is lend-lease buying based on the principle of taking surpluses off the market; it is based primarily on foreign needs and only secondarily to the disposal of surpluses.

In this respect, lend-lease buying actually intensifies the need for greater assistance in the procurement of an adequate diet for our low-income groups, because purchases which are not surplus purchases have the effect of increasing prices beyond the range of low-income groups.

In effect, therefore, lend-lease buying has not solved the market problems which equivalent dollars of regular Surplus Marketing Administration funds would do. Numerous commodities are still in need of market support. On the other hand, new public dietary problems have arisen as a direct consequence of lend-lease buying.

*Malnutrition in America.*—The malnutrition prevalent in America is a shocking and inexcusable situation. Studies of the Bureau of Labor Statistics and of the Public Health Service show that alarming dietary deficiencies exist among a large proportion of relief clients and low-income families. The Surplus Marketing Administration program with its food consumption subsidies has made a notable advance toward better national nutrition and better national health. It is in-

congruous that a program which admittedly has such an intimate relationship with the health and production efficiency of the individual worker should be curtailed at a time when maximum production and efficiency is essential to the war effort.

In factual terms, this is the excellent record of the Surplus Marketing Administration insofar as national nutrition is concerned:

*Stamp plan.*—The food-stamp program now reaches about 4,000,000 persons of nearly 11,000,000 persons receiving public assistance. It is now operating in 395 areas which cover approximately 1,200 counties. The program now covers nearly 60 percent of the population but in terms of the physical area of the United States, about 45 percent. Of the 1,800 counties not now under the program, requests have been received from approximately 1,000 counties. Expenditures are now made at the rate of about \$9,500,000 per month for blue stamps—the stamps which are given free at the rate of one to two to certified public assistance persons buying orange stamps.

If placed on a national basis, it is estimated that the food-stamp program would now cost about \$220,000,000 a year. The most optimistic estimates of the reduction of the number of public assistance people in case of full employment are that we would still have about seven or eight million persons receiving public assistance, including the blind, the crippled, the aged, orphans, and other groups.

*School lunches and direct purchase.*—Financed also out of present funds is the school lunch program. Approximately 4,500,000 school lunches are now being served daily, relying largely upon food purchases made by the Surplus Marketing Administration. The total number of school children in the country is twenty-seven million plus. More than 9,000,000 are estimated to have unmet nutritional needs, many of them of a very serious type. This program is now on the increase with the goal for this winter set at 8,500,000 children. It represents an expenditure of about \$25,000,000.

Purchases for the direct distribution of surplus foods for the last fiscal year totaled about \$67,000,000. The rate of purchases this year is lower. But demand is increasing, particularly in (1) flood-stricken farm areas of east Texas, Louisiana, Mississippi, and Arkansas; (2) areas where the defense program has produced little employment; (3) areas where the defense program is already resulting, and is likely to result further, in substantial unemployment, due to the nature of local industry, priorities, strategic material shortages, etc.

It is important to maintain the framework of this type of machinery because direct distribution is one of the simplest ways to supply foodstuffs for the destitute, to quickly eliminate market gluts, and to meet serious post-war situations arising out of reduced national income, increased unemployment and lower farm prices.

*Relief-milk distribution.*—Still another activity is relief-milk distribution. Reduced-milk-price programs now are carried on at an expenditure rate of about \$12,000,000 a year. This framework, both on surplus disposal and nutritional grounds, needs to be expanded. It is needed to carry off excess milk which may result from the production-goal program and this outlet is needed in connection with price support assurances given in connection with cheese, evaporated milk, and dry skim milk. On nutritional grounds Federal policy probably should be geared to some assured minimum milk allowance

in this country for every growing child, nursing or pregnant mother, etc.

*The Surplus Marketing Administration and the farmer.*—The other coordinate activity of the Surplus Marketing Administration relates to the farmer and agricultural marketing. As previously mentioned, some of the pressure of the problem of surplus commodities has been relieved by lend-lease purchases. Yet, the problem is not squarely met because lend-lease needs do not necessarily coincide with our surpluses nor are they timed nor flexible enough to meet sudden shifts in market supply.

These new factors are injected into the picture: The Government has made commitments to the farmers to obtain certain production increases. Necessarily, this involves great risks to the farmer because increasing or decreasing farm production is not an exact, but a hazardous process. It is not unlikely that production goals will be overshoot for individual commodities in individual areas at certain times. There are many commodities where production in quantitative terms cannot be forecast because of the weather and other factors. For instance, it is possible to increase many vegetable crops by as much as 30 or 40 percent. Also, it is desirable to meet unusual market situations such as are constantly arising.

The Government has a moral commitment to support prices of the commodities which it has encouraged farmers to produce in greater quantity. The program of the Surplus Marketing Administration is a flexible framework for support in any contingency. Having machinery and funds available which can promptly move price depressing surpluses is of extreme importance because of the large number and variety of products produced on American farms. The impact of demand and price is not equal for all.

#### CONCLUSION

To me, the conclusion is inescapable that almost the full impact of the recommendations of the majority of the committee would, if enacted, fall almost entirely on the very lowest income groups among our population. This action would be unwise in time of peace; confronted with total war which may be of long duration, I regard it as a grave error in policy.

High morale—in fact, the very essence of dynamic democracy—is dependent upon a whole nation enjoying at least a minimum of the necessities and comforts of life. All the social legislation of the past decades, all of the trends toward greater public assistance for the underprivileged have had the wholesome effect of tending to make democracy a reality in America. To the extent that the programs have been successful they have given hope to millions that some day equality of opportunity may be achieved.

To cripple or destroy the efforts which have thus far been made in this direction will have an adverse effect upon morale at the very time when we should be redoubling our efforts to build it up. To accept the report of the majority of the committee will shake the confidence of millions of people that the sacrifices of war are to be equitably apportioned among all sections of the population.

The recommendations to economize at the expense of low-income families and the unemployed are in the face of widespread continuing

need in large sections of our Nation. It is a well recognized fact that war-industry orders have for the most part been concentrated in a few areas. Nor do higher farm prices answer the problems of many of the people in these States. The fact is that in many States, especially the States of the South, many farmers' crops have been so meager that they are in a more desperate situation than has been true for the past several years.

Curtailment of nonessential industries has had the effect of putting many of our people out of work. The war boom has created a sort of prosperity in some sections of the Nation, but it has caused serious and ruinous dislocations in others. In towns and cities where there have been no war-industry controls, skilled workers have picked up their belongings and moved to centers having war contracts. As a result, new ghost towns are appearing over night all over America.

In effect, the committee is recommending to take from the many who have not benefited from the war-industry effort the small aids which up to now have been provided. This will pile injury on top of injury. First we locate war contracts in a few States to the exclusion of the thousands of small firms and small communities. This drains off the key workers of the excluded areas and leaves them in weakened condition. We are asked to take from them such Government aids that remain. If they had need of Government aids before these new dislocations occurred, they have greater need of them now.

No one can disagree with the general objective of reducing waste and all nonessential expenditures of Government. The crux of the matter is "What is nonessential?" and "Where is the waste?" My own view is that the various social programs which the majority of the committee would eliminate are vital to the successful conduct of total war. The entire civil arm of the Government will spend in this fiscal year \$6,600,000,000. Defense and war will cost at least \$21,000,000,000. It is my contention that the majority report attempts to save at the spigot by drastic curtailment of essential aid to the underprivileged while the waste occurs at the bung hole of war and defense.

ROBERT M. LA FOLLETTE, JR.

○

December 24, 1941

My dear Mr. President:

George Haas has just handed me a very interesting chart showing that there has been a total of \$5,260,000,000 of commitments for industrial facilities for defense production. Of this amount, \$145,000,000 was put up by the British Government.

I thought this chart might prove to be useful to you at this particular time.

Sincerely yours,

(signed) W. Magenthau, Jr.

The President,

The White House.

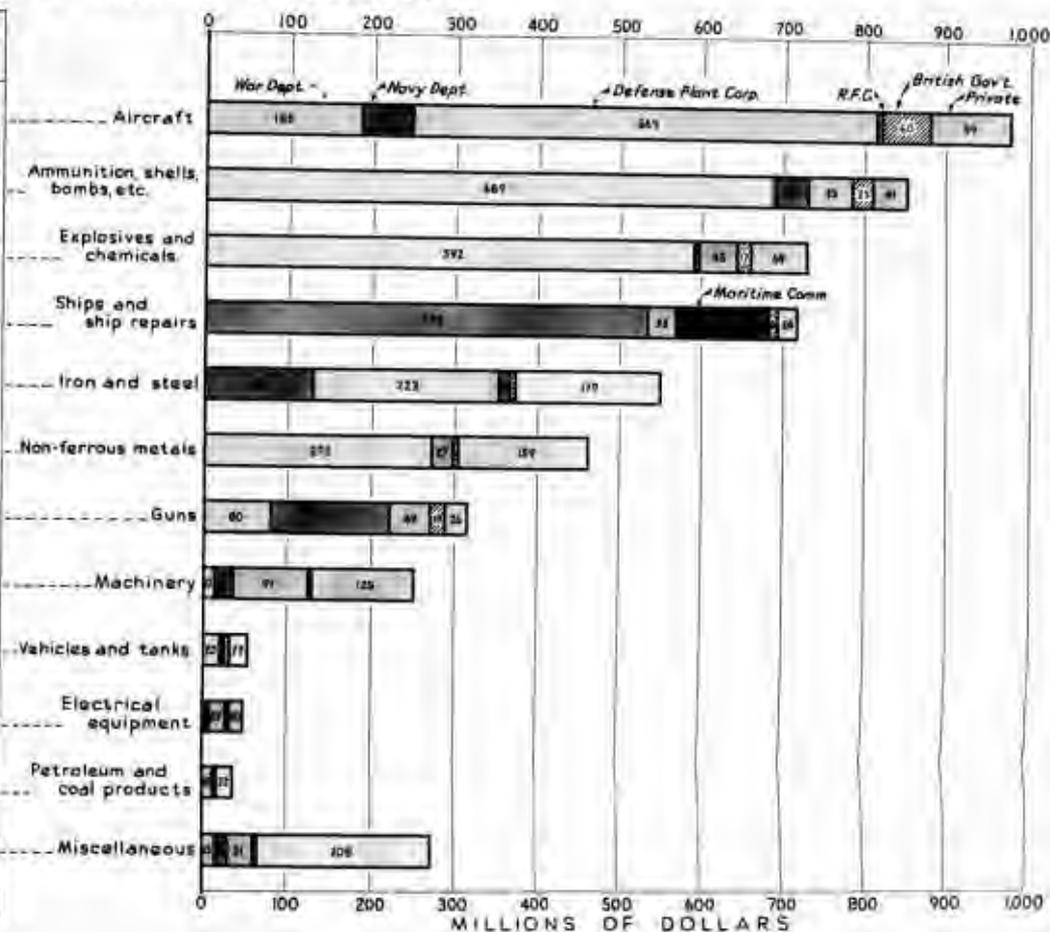
*Sent by Secret Service at 2:30 P.M.*

# COMMITMENTS FOR INDUSTRIAL FACILITIES FOR DEFENSE PRODUCTION Through September 30, 1941

AMOUNTS IN MILLIONS OF DOLLARS

	U.S. Government					Total U.S. Gov't.	British Gov't.	Private	Total
	War Dept.	Navy Dept.	Defense Plant Corp.	R.F.C.	Maritime Comm.				
Aircraft	185	61	500	5	-	820	60	90	970
Ammunition, shells, bombs, etc.	669	42	85	*	-	795	25	41	862
Explosives and chemicals	592	5	45	-	-	642	17	90	728
Ships and ship repairs	-	536	33	*	115	683	8	34	710
Iron and steel	3	126	223	12	-	365	7	170	580
Non-ferrous metals	-	*	272	27	-	300	3	159	461
Guns	60	141	40	*	-	270	18	30	314
Machinery	12	22	62	*	-	126	*	125	251
Vehicles and tanks	20	-	4	-	-	24	0	33	53
Electrical equipment	1	0	22	*	-	29	1	20	40
Petroleum and coal products	13	-	2	-	-	14	-	22	37
Miscellaneous	15	16	31	*	-	62	1	208	271
<b>Total</b>	<b>1,611</b>	<b>953</b>	<b>1,307</b>	<b>46</b>	<b>115</b>	<b>4,122</b>	<b>145</b>	<b>994</b>	<b>5,260</b>

\* Less than \$500,000.



Source: Office of Production Management.

December 24, 1941  
3:17 p.m.

WJr: Hello.

Operator: Mr. Mack.

WJr: Mack.

Clifton  
Wack: Yes, sir.

WJr: Have they given you anything more - any new work -  
anybody?

W: No, sir. Following the talk we had at your home,  
I have been busy lining up the program of the  
things that we can do.....

WJr: Yes.

W: .....to step up the work that we have been doing  
since July first of this year.....

WJr: Yes.

W: .....and that's in conjunction with MacKeeschie's  
organization, because he has men with specialized  
training that he can let us have on detail.....

WJr: Yes.

W: .....so that I expect to have a program to lay  
before you in about one week.

WJr: Good.

W: I also talked with Oscar Cox this morning, following  
the Stettinius meeting.

WJr: Oh, yes.

W: And he talked about certain commodities that War  
is buying, and asked if we could help on that.

WJr: Yes.

W: And I told him that we, of course, would be glad

- 2 -

to help in any way that we could.

HMJr: Yeah. Well, Oscar spoke to me about that.

M: Oh, I see.

HMJr: Did he mention anything particular?

M: Well, he mentioned tires and tubes.....

HMJr: I see.

M: .....and chemicals and machine tools.....

HMJr: Yes.

M: .....and motor trucks.

HMJr: I see.

M: Now, motor trucks have gone to the Motor Transport of the War Department.

HMJr: Yes.

M: And the tires have followed because they bought the trucks there.

HMJr: Yes.

M: But I pointed out to him that we buy all the tires and tubes for the entire Government service in Washington and the field.

HMJr: Yes.

M: Therefore, it's an inconsistency.

HMJr: Yes.

M: So, he said he would go into it, and that he wanted to know about other commodities as well.

HMJr: I see. He's interesting himself in it.

M: Indeed he is. He is. And on this MacKeachie program, the commodities that we planned to get

- 3 -

into right away are the ones that are tight from a supply angle - to avoid competition between the agencies, and to avoid calling on industry for quantities that are beyond those that are required.

HMJr: Yeah.

M: So we're going into heavy machinery first, office equipment, chemicals, and - oh, certain other commodities are tight - certain items of electrical equipment, such as motors and generators.

HMJr: Okay. There's one thing I wanted to ask you. I don't know what it is, but - well, if I think of it, I'll call you back.

M: Yes. All right, sir. And a pleasant holiday to you, Mr. Secretary.

HMJr: Thank you. Same to you.

M: Good-bye; yes, sir.

DEC 24 1941

My dear Mr. Cochran:

I want to thank you for the courtesy of your letter of December 22 in which you express your disappointment that the Treasury does not oppose state taxation of defense activities. However, this decision was reached only after prolonged and serious consideration of the problem of intergovernmental immunity and after conferences with the War and Navy Departments as well as the Bureau of the Budget.

The information which Mr. Foley gave you when you telephoned him accurately represents the Treasury's position. However, the formal report which the Treasury has prepared on the bill can not be transmitted to Chairman Houghton unless and until it is learned from the Director of the Budget whether the report is consistent with the President's program. In accordance with our usual practice on these matters, the report was transmitted to the Bureau on December 19 and if we are informed that the report is consistent with the President's program, it will be transmitted promptly to the Committee on Ways and Means and Mr. Foley will furnish you with a copy.

My own view is that some action by Congress is probably advisable to clear away the confusion which seems to exist in the minds of responsible officials of the War and Navy Departments. In the light of our analysis, however, I conclude that such action should (and perhaps in any event must) concede the taxability of independent and cost-plus-fixed-fee contractors. Going further it might allow taxes on all defense purchases. It is perhaps too much to expect that it will go the whole way, attempting to eliminate all immunity on all government purchases. But even this would, in my opinion, be well within the bounds of sound public policy. In short, I think every State has the right to choose its own system of taxation

- 2 -

and that, as long as a State does not discriminate against the United States, the Federal Government should keep its hands off. The state and national governments must co-exist and nondiscriminatory taxation of all private persons, even when they deal with governmental departments and agencies is but the normal incident of our dual system of national and state governments, each operating within the same territory and upon the same persons.

I fully realize that this is an issue on which reasonable men can differ; and I deeply appreciate your willingness to listen to our version of the issue involved.

Very sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. John J. Cochran

House of Representatives

*Orig. out by hand from S. C. Office at 10:30 a.m. -  
12-24-41.*

CLK:t  
12-23-41

CONGRESS OF THE UNITED STATES  
House of Representatives  
Washington, D. C.

309

John J. Cochran  
5th Dist. Missouri

December 22, 1941

Personal Attention

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury.

My dear Mr. Secretary:

Some time ago I introduced a bill which would provide exemption from State sales and use taxes of expenditures for National Defense purposes. This is necessary by reason of the decision of the U.S. Supreme Court in the Alabama case.

I am greatly disappointed at the attitude of the Treasury Department on this question. Following the introduction of this bill I was advised the Judge Advocate Generals of the Army and Navy would like to offer suggestions relative to the wording of the measure. I so advised your Department and I understand the officials mentioned were contacted. No action being taken by the Department on the request of the Ways and Means Committee of the House for a report on my bill I contacted Mr. Foley. I was frankly informed by Mr. Foley the Department was in accord with the decision of the Court and was not in sympathy with the position taken by the Attorney General. I learned in my talk with Mr. Foley the action was based upon the attitude of the Treasury on the question of taxing interest on State securities by the Government. I am in accord with this view and will vote for such legislation but as you know since the days of Secretary Glass this recommendation has been made by the Treasury but Congress has never reacted favorably and I might add I doubt if it ever will unless the day arrives when it will be necessary in order to save the financial structure of the Government. Mr. Foley took the position the Treasury could not urge the taxing of interest on state securities and then ask for the exemption of Government expenditures from sales and use taxes.

As you are aware I have seldom if ever been in disagreement with the Treasury Department but in this instance I

-2-

am and I propose at an early date to force the issue. I have no pride in authorship, simply introducing the bill to get the matter started. Let Mr. Doughton or anyone else introduce the proper bill.

Regardless of the Treasury's position I ask that Mr. Foley confer with Chairman Doughton of the Ways and Means Committee, if he does not desire to go on record, submit a bill which will reach the objective and let Congress take the responsibility of either passing or defeating the measure. Dozens of Members have approached me and urged immediately consideration. Their states are interested, some fearing if the expenditures are not exempted some of their industries will move to states where there are no such taxes.

I do not ask you to go on record in this matter but I will appreciate hearing from you by telephone or from one of your Assistants as to what the Treasury proposes to do.

If you do not look kindly towards this suggestion then I would say let the matter be handled by the Bureau of the Budget, but in all kindness let me say I am going to insist upon action and it will be extremely embarrassing to me if I am compelled to criticize some Government officials in connection with this matter.

With assurance of my high esteem, I am

Sincerely yours,

/s/ John J. Cochran

December 24, 1941

Dear Admiral King:

I am more than pleased at the additional responsibility and high honor which the President of the United States has given to you, and I want to wish you all possible Christmas joys and a victorious New Year.

Yours sincerely,

(sgd) Henry Morgenthau, Jr.

Admiral Ernest J. King,  
Commander-in-Chief, United States Fleet,  
Room 3056, Navy Department,  
Washington, D. C.

By special messenger  
12:30  
12/24/41

December 24, 1941

Dear Count Coudenhove:

I have just heard from the Department of Justice that your daughter has been granted permission to accept employment in the New York Botanical Gardens.

No doubt you have had word of this already, but I just wanted to tell you of my pleasure at the good news.

Sincerely,

(Signed) H. Mergenthau, Jr.

Count Richard M. Coudenhove-Kalergi,  
2501 Palisade Avenue,  
New York, New York.

FK/hkb

12/24/41

*Copy to Fisher  
n.m.c.*

Department of Justice  
Immigration and Naturalization Service  
Washington

TPM/1er  
56099/116

December 18, 1941

Honorable Henry A. Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

This will refer to your letter of December 16, 1941, addressed to the Honorable Frances Perkins, Secretary of Labor, and which concerns the alien, Miss Erika Coudenhove-Kalergi. Your letter has been referred to this Service for appropriate consideration.

You are advised that Miss Coudenhove-Kalergi has been granted permission to accept employment at the New York Botanical Gardens.

Sincerely yours,

  
Lemuel B. Schofield  
Special Assistant to the Attorney General

*Mr. Kucin advised receipt  
of this letter for  
signature.*

DEC 24 1941

Dear Dr. Soong:

My heartiest congratulations on your appointment as Minister of Foreign Affairs.

I feel happy about your appointment because I know and esteem your abilities and devotion to freedom. I am sure that China and all who are fighting with her will greatly profit from your counsel and leadership.

My best wishes for a Merry Christmas and a Victorious New Year.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. T. V. Soong,  
Minister of Foreign Affairs,  
Republic of China,  
Chinese Embassy,  
Washington, D. C.

*Sixon*  
By Messenger 2:05

*Copies to Mr. White*

*M.M.C.*

HDW:rel  
12/24/41

December 24, 1941

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's Office  
December 24, 1941  
2:00 P. M.

Present: Mr. White  
Dr. Li, Chinese Embassy -  
Mr. B. Bernstein  
Mr. Ullmann

Dr. Li, of the Chinese Embassy, brought information about Chinese currency which T. V. Soong wants destroyed.

Dr. Soong has stated that he wants the currency destroyed now, because there will be more important steps to take in Manila if the situation becomes more critical - and he wants to preclude any possibility of the currency's falling into the hands of the enemy.

The currency (about 200 million yuan) is in a bonded warehouse in Manila. It was enroute to China, consigned to the American Banknote Company, Hong Kong.

Mr. Bernstein said he would prepare the necessary cable to the High Commissioner of the Philippines, to be sent upon the written joint request of T. V. Soong and the Chinese Ambassador.

December 24, 1941.

MEMORANDUM

To: Secretary Morgenthau  
From: Mr. Gaston

Referring to your memorandum of December 23 about Robert P. Vanderpoel of the Chicago American, I have followed his work for several years. He has been consistently friendly and has had a better understanding of Treasury and administration fiscal policies than any other financial writer. He has certainly done us a great deal of good in the mid-west.

He could be quite useful in the Treasury but I doubt that we could pick a spot for him where he would be as useful to us as he is in his present post. I think generally it is a mistake that this administration has often made to take able and friendly writers away from the employment in which they are doing effective work to give them government jobs.

The situation would of course be different if Vanderpoel should decide to leave the Chicago American. In that case we should pick him up.

HEG:ds

December 23, 1941

FROM: THE SECRETARY

TO: MR. GASTON  
MR. KUHN  
MR. SCHWARZ

I wonder if there isn't a place in the Treasury for Robert P. Vanderpoel, who is one of the few financial writers who for years has been one of our friendly critics.

He might be helpful to George Buffington. In any case, it seems too bad not to make use of a man of Vanderpoel's attainments.

Please let me have an answer on this not later than Friday.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

318

OFFICE OF THE CHAIRMAN

12/20/41

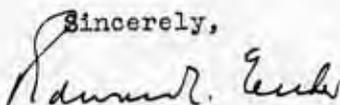
The Honorable  
Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

12/20  
7

Dear Mr. Morgenthau:

This will acknowledge receipt of your letter of December 17, 1941, enclosing an anonymous letter regarding the sale of Transamerica stock by Walston & Company. I appreciate your courtesy in this matter.

Sincerely,



Edward C. Eicher  
Chairman

United States Senate  
WASHINGTON, D. C.

December 24, 1941

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

My dear Mr. Morgenthau:

I greatly appreciated your kindness last night.  
Thank you again for it.

Curiously enough, I found a letter from the Canadian Bank of Commerce on my desk this morning entirely covering the transaction about which I spoke to you.

I am satisfied with the way the matter is being handled, and I will not avail myself of your great generosity at this time.

With holiday greetings to Mrs. Morgenthau and yourself, in which Mrs. Austin joins me, I am,

Sincerely yours,

Warren R. Austin.

## TREASURY DEPARTMENT

330

## INTER OFFICE COMMUNICATION

DATE December 24, 1941

TO Mr. Graves

FROM Mr. Haas

Subject: Estimated number of units of Series E savings bonds required to produce: (a) \$750 million per month, (b) \$450 million per month.

In accordance with your request, we have estimated the number of units of Series E savings bonds which would be required to produce (a) \$750 million per month, and (b) \$450 million per month.

If the volume of Series E bond sales should be increased to \$750 million monthly, it is apparent that a substantial portion of such sales would have to be in the smaller denominations. On the basis of the present distribution of individual incomes in the United States, by size classes, the number of individuals who could purchase regularly, over any extended period of time, a \$500 or a \$1,000 bond each month, is very definitely limited. The schedule below is probably optimistic in that the number of units in the larger denominations may be overstated:

Denomination	Number of units (in thousands)	Issue price (in millions)	Percent of total dollar volume
\$ 25	24,400	\$457.5	61.0%
50	1,800	67.5	9.0
100	1,500	112.5	15.0
500	120	45.0	6.0
1,000	90	67.5	9.0
Total	27,910	\$750.0	100.0%

With monthly sales of \$450 million, the number of units in the larger denominations would probably be about the same as under a \$750 million per month volume. The schedule below is based on the same number of \$50, \$100, \$500 and \$1,000 units as was assumed in the estimates given above for monthly sales of \$750 million.

- 2 -

Denomination	Number of units (in thousands)	Issue price (in millions)	Percent of total dollar volume
\$ 25	8,400	\$157.5	35.0%
50	1,800	67.5	15.0
100	1,500	112.5	25.0
500	120	45.0	10.0
1,000	<u>90</u>	<u>67.5</u>	<u>15.0</u>
Total	11,910	\$450.0	100.0%

## COMMISSIONER OF THE PUBLIC DEBT

Mrs Reedy

We have shortened the  
daily report - and reduced  
it to one page -

12-25-41

Myers

2 Reports - Dec 24 + 25,

12-26-41

U. S. SAVINGS BONDS, SERIES B, TYPE AReport of December 24, 1941REQUISITION ACCOUNT OF ALL ISSUING AGENCIES

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions close of business December 23.....	749,000	671,000	667,000	142,000	111,000	2,340,000
Requisitions received December 24...	99,520	49,883	58,566	17,202	10,233	235,404
Total.....	848,520	720,883	725,566	159,202	121,233	2,575,404
Shipments December 24.....	229,520	78,883	27,566	202	21,233	357,404
Due on requisitions close of business December 24.....	619,000	642,000	698,000	159,000	100,000	2,218,000

STOCK ACCOUNT OF LOANS AND CURRENCY VAULT

On hand close of business December 23.....	13,445	3,562	4,571	7,416	55,960	84,954
Received from Bureau December 24....	220,000	80,000	25,000	.....	.....	325,000
Total.....	233,445	83,562	29,571	7,416	55,960	409,954
Shipments December 24.....	229,520	78,883	27,566	202	21,233	357,404
On hand close of business December 24.....	3,925	4,679	2,005	7,214	34,727	52,550

Estimated deliveries to be received from Bureau of Engraving and Printing:

December 25.....	225,000	80,000	35,000	.....	.....	340,000
December 26.....	150,000	50,000	40,000	.....	.....	240,000
December 27.....	215,000	.....	50,000	10,000	10,000	285,000

U. S. SAVINGS BONDS, SERIES B, TYPE AReport of December 25, 1941REQUISITION ACCOUNT OF ALL ISSUING AGENCIES

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions close of business December 24.....	619,000	642,000	698,000	159,000	100,000	2,218,000
Requisitions received December 25.....	2,000	.....	.....	200	200	2,400
Total.....	621,000	642,000	698,000	159,200	100,200	2,220,400
Shipments December 25.....	212,000	74,000	33,000	200	5,200	324,400
Due on requisitions close of business December 25.....	409,000	568,000	665,000	159,000	95,000	1,896,000

STOCK ACCOUNT OF LOANS AND CURRENCY VAULT

On hand close of business December 24.....	3,925	4,679	2,005	7,214	34,727	52,550
Received from Bureau December 25.....	225,000	80,000	35,000	.....	.....	340,000
Total.....	228,925	84,679	37,005	7,214	34,727	392,550
Shipments December 25.....	212,000	74,000	33,000	200	5,200	324,400
On hand close of business December 25.....	16,925	10,679	4,005	7,014	29,527	68,150

Estimated deliveries to be received from Bureau of Engraving and Printing:

December 26.....	180,000	50,000	40,000	.....	.....	270,000
December 27.....	240,000	.....	50,000	10,000	10,000	310,000
December 28.....	170,000	80,000	55,000	10,000	10,000	325,000

## SUMMARY OF SALES OF DEFENSE SAVINGS BONDS

## SERIES E

	\$25	\$50	\$100	\$500	\$1,000	Total
Largest monthly sale prior to December	725,000	270,000	400,000	85,000	95,000	1,575,000
Average monthly sale for three months - September through November	672,000	258,000	363,000	60,000	58,000	1,411,000
Estimated November sales	725,000	260,000	360,000	60,000	55,000	1,460,000

*JNA* 12/24/44

ESTIMATED STOCK OF DEFENSE SAVINGS BONDS OF SERIES E IN HANDS OF  
POST OFFICES AND FEDERAL RESERVE BANKS FOR DECEMBER SALES

	\$25	\$50	\$100	\$500	\$1,000	Total
Estimated unissued stock in hands of Post Offices on December 1, 1941	769,292	460,846	477,676	213,671	195,042	2,116,527
Stock shipments to Post Office Department December 1 through 23	697,500	167,000	195,000	30,000	35,000	1,124,500
Total stock on hand in Post Offices for December sales	<u>1,466,792</u>	<u>627,846</u>	<u>672,676</u>	<u>243,671</u>	<u>230,042</u>	<u>3,241,027</u>
Estimated unissued stock in hands of Federal Reserve Banks and their issuing agents on December 1, 1941	917,251	556,780	425,047	151,422	125,408	2,175,908
Stock shipments to Federal Reserve Banks December 1 through 23	1,184,007	652,910	853,760	200,695	244,546	3,135,918
Total stock on hand in Federal Reserve Banks and issuing agents for December sales	<u>2,101,258</u>	<u>1,209,690</u>	<u>1,278,807</u>	<u>352,117</u>	<u>369,954</u>	<u>5,311,826</u>
Estimated unissued stock in hands of issuing agents on December 1, 1941	1,686,543	1,017,626	902,723	365,093	320,450	4,292,435
Stock shipments to issuing agents December 1 through 23	1,881,507	819,910	1,048,760	230,695	279,546	4,260,418
Total stock in hands of issuing agents for December sales	<u>3,568,050</u>	<u>1,837,536</u>	<u>1,951,483</u>	<u>595,788</u>	<u>599,996</u>	<u>8,552,853</u>

*pye* 12/24/41

TREASURY DEPARTMENT  
Defense Savings Staff

*From*  
*Carlton Luff*

LOCAL NEWSREELS

12/24/41

To date we have taken and have on hand the following prints which will be distributed in the State where they were made.

MICHIGAN

James Jans	- 14 year old schoolboy.
Susan Tabibian	- 13 year old school girl.
Patsy Perkins	- 10 year old school girl.
W. A. Comstock	- Former Governor of Michigan.
Phil Huber	- President Ex-Cell-O Corp.
Ernest W. Knox	- Executive Street Car Co.
Father Raymond S. Clancy	- Chaplain Ass'n of Catholic Trade Unionists
Clare Briggs	- Truck Driver
Thomas V. LoCicero	- Representative of the State Bar Ass'n. makes his speech both in English and Italian.
Frank N. Isbey	- Chairman Defense Savings Program of Michigan.
Preston Slosson	- Professor, Dept. of History Michigan University.
George Prinsky	- Representative, Michigan State Committee American Slav Congress. Makes a speech in both English and Bulgarian.
Frank X. Martel	- A. F. of L. Executive.
J. E. Frawley	- Hotel executive.
N. S. Shapero	- President National Ass'n Chain Drug Stores.
Herman F. Luhrs	- State Commander American Legion, Dept. of Michigan.
Dr. Edgar De Witt Jones	

MICHIGAN

Mrs. George V. Lowe - President Detroit Federation  
of Women's Clubs.

Lloyd Smith - Salesman

Marion Meisenheimer - Student Nurse.

Howard C. Lawrence - Vice President Michigan Trust  
Company.

Leon T. Closterhouse - President, Central Bank.

Barbara Ann Collisi - School student.

Lincoln Linderholm - Chairman Defense Savings  
Committee, Grand Rapids

Mary Lou Wade - High School student.

Carolyn Wade - Junior High School Student.

Desdemona Marks - Principal, Dickenson School.

Carl T. Breitinslein - Stamp Division, General  
Motors Die Maker.

Buell C. Phelps - Welder, General Motors

Loy Gene Norrix - 11 year old schoolboy.

Margaret Richards - Teacher

L. J. Wetherbee - Banker

E. E. Ludwig - City Commissioner

Lyle Burge - Lt., Kalamazoo Fire Dept.

Naseeb G. Damoose - Director of Public Service  
of Battle Creek.

Mary Lou Bordner - 16 year old Central High Student.

Chase Black - 17 year old St. Philips High  
student.

Harvey Huggett - A. F. of L. Laborer

Rev. Carleton Brooks - 1st Congregational Church.  
Miller

Robert R. Stevenson - Office Worker.

Joan Pietrzyk - C. I. O. Factory Worker.

MICHIGAN

Geo. P. Spagnuolo & Arlan Cramer - Auto workers.

Garfield Peterson & Cleao Van Nortwick - Defense workers.

"Gene" Wanger - Vice President, Michigan Nat'l Bank.

Gov. Murray D. Van Wagner

Mayor Sam Street Hughes

Mayor with his Secretary, Margaret Hultberg and her daughter, Margaret Gail Hultberg.

Gordon Callard - President, Lansing Merchants Ass'n.

Prof. M. M. Cory - Electrical Engineering, Michigan State College.

Molly Kingsley - Office Worker.

Chief of Police, John F. O'Brien.

Fred Sanford - Colored Janitor.

Peter Szluk - Dept. of Internal Revenue.

Shirley Seiloff - Secretary.

Elizabeth Walkos - Artist.

Jack Sparrow - Newsboy.

Louis Herbert - Newsboy.

Pauline Switzer - Student Nurse.

Frank Barbaro - Theatrical Producer.

Dorothy Irwin - Teacher.

Agnes Lofy - High School Girl.

Assemblyman John L. Doyme - Attorney

Ruth Kringel - Student Nurse

Mark F. Pfaller - Architect.

Marian Nash - Salesgirl.

WISCONSIN

WISCONSIN

Isabelle Dorsey - Salesgirl.  
 Jimmy De Montmollin - Newsboy.  
 George Glaub - Brewery Worker.  
 Hon. Carl Zeidler - Mayor.  
 Ruth Zwalina - Teacher.  
 Mrs. Frank Jenks - Woman's Organisation Leader.  
 Dr. Friedrich Roetter - News Commentator.  
 Hon. Fred M. Evans - Dane County Judge.  
 Mrs. Louis Gardner - Woman's Organization Leader.  
 Mrs. George Ritter - Woman's Organization Leader.  
 Fred L. Holmes - Author-Historian  
 Hugh M. Jones - Motor Vehicle Division.  
 Philip H. Falk - School Superintendent.  
 Mrs. Wm. L. Doudna - P. T. A. Leader.  
 Rae Kimpel - University of Wisconsin.  
 Arlie Mucks - Professor College of Agriculture.  
 Mrs. Victor Nicla - Home Maker.  
 George J. Hesik - Wholesale Grocer.  
 Harold Bogenhagen - High School Student  
 Herbert V. Kohler - Manufacturer.  
 Alvin Gillett - Chamber of Commerce  
 O. L. Hall - Banker. (Bank of Sheboygan).  
 C. E. Broughton - Publisher.  
 Ray Mundloch - Central Labor Council.  
 Mrs. Konrad Testwide - Woman's Club Chairman.  
 Warren Nelson - Newsboy.  
 Mrs. Jerry Donohue - President, Women's Clubs.  
 Frances E. Zummach - Coach, Sheboygan Redskins.

DEC 24 1941

My dear Mr. Wellett:

Replying to your letter of December 22, 1941, I have designated Mr. Ferdinand Kuhn, Jr., Assistant to the Secretary, as representative of the Treasury Department in connection with the coordination of Government films for the duration of the war.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Lowell Wellett,  
Director,  
Office of Government Reports,  
Executive Office of the President.

*Copies to Stamp  
n. m. c.*

WHT:ja

DEC 24 1941

Dear Mr. Kahn:

I enclose a copy of a letter of December 22, 1941, from Lowell Hallett, together with a copy of a letter from the President of December 18, 1941, addressed to Mr. Hallett, with respect to the coordination of Government films for the duration of the war. You are hereby designated as representative of the Treasury Department on this work.

Sincerely yours,

[Signed] H. Morgenthau, ~~USA~~

Secretary of the Treasury.

Mr. Ferdinand Kahn, Jr.,

Assistant to the Secretary.

*Copies to Slompan  
n m c*

WTS:ja

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF GOVERNMENT REPORTS  
WASHINGTON, D. C.

December 22, 1941

My dear Mr. Secretary:

I am transmitting a copy of a letter from the President directing me to act as Coordinator of Government Films for the duration of the war. The letter sets forth the general duties the President wishes fulfilled in this respect.

Within a few days a general meeting will be called of representatives of Government agencies which are using films in any way or which plan to make any use of motion pictures during the war. At that time, the detailed functions of this office will be explained.

Plans are being made to utilize the advice and assistance of the various agencies now producing or releasing films. I am certain your agency will be able to contribute to the formulation of plans. Will you kindly advise this office the name of your representative in order that he may be notified promptly of the time and place of the meeting.

Sincerely yours,

  
Lowell Mellett,  
DIRECTOR.

Honorable Henry Morgenthau, Jr.  
Department of the Treasury  
Washington, D. C.

THE WHITE HOUSE  
WASHINGTON

December 18, 1941

My dear Mr. Mellott:

The American motion picture is one of our most effective media in informing and entertaining our citizens. The motion picture must remain free insofar as national security will permit. I want no censorship of the motion picture; I want no restrictions placed thereon which will impair the usefulness of the film other than those very necessary restrictions which the dictates of safety make imperative.

The motion picture, especially as used by the Federal Government, has a very useful contribution to make during the war emergency. In order that the Federal Government's efforts in the field of motion picture production and distribution may serve most effectively and efficiently, it is desirable that all activities of the Federal Government be coordinated under the direction of one central office.

Therefore, as President of the United States and Commander-in-Chief of the armed forces, I direct that you, as Director of the Office of Government Reports, act as Coordinator of Government Films for the duration of the war.

The functions you will discharge in this capacity are:

1. Act as the liaison officer of the Federal Government with theatrical, educational and industrial producers and distributors in connection with the preparation, production, and distribution of films.

2. Establish a clearance office through which all of the Government's civilian films must clear whether they are to be distributed through theaters or through non-theatrical organizations.
3. Plan, so far as necessary, such Government motion picture production and distribution as is deemed necessary to inform and instruct the public during the wartime crisis.
4. Consult with all Government departments in connection with film production and distribution programs and consult with and advise motion picture producers of ways and means in which they can most usefully serve in the national effort.

I further direct that you transmit a copy of this letter to the heads of all Federal agencies.

Sincerely yours,



Franklin D. Roosevelt.

Honorable Lowell Mellett, Director,  
Office of Government Reports,  
Executive Office of the President.

# TREASURY DEPARTMENT

336

## INTER OFFICE COMMUNICATION

DATE December 24, 1941

TO Secretary Morgenthau  
FROM Mr. Thompson

Attached is a memorandum from Chief Deasy in response to your request to him of yesterday to make another inspection of the Treasury Building.

We have already had under way many of the items he mentions and are proceeding with everything possible with full speed. Many of the measures he has recommended, such as blacking out the Treasury, covering windows, installing signal systems, constructing shelters, etc., for Treasury buildings, have been estimated to cost about \$309,000. We had thought such funds might be made available from the President's emergency appropriation, but this having been withdrawn from our submission to the President, we submitted the item to the Bureau of the Budget and had a hearing on last Monday. The Bureau of the Budget examiners informed us that these were matters for the Public Buildings Administration, for whom a fund perhaps as high as 50 million dollars might be requested of Congress to take care of all public buildings. Unless and until an appropriation is made, we can only proceed immediately with the smaller items and this is being done.

*W. H. C.*

## TREASURY DEPARTMENT

WASHINGTON

December 23, 1941

Memorandum to: SECRETARY MORGENTHAU

In compliance with your request, another inspection was made of the main Treasury Building, immediately after the first air-raid practice drill this afternoon, for the purpose of submitting recommendations for the installation of emergency fire-fighting equipment. These recommendations follow:

ROOF

1. Fire-watchers (22 in all, to work in groups of 6, three shifts of 8 hours each - and the remaining 4 to afford proper relief).
2. Fire-fighting equipment for use of the fire-watchers, as follows:
  - Heavy gauntlets
  - Dark glass goggles
  - Steel helmets
  - Gas masks
  - Low intensity flashlights
  - Crow bars
  - Fire axes
  - Lengths (100 feet each) of 3/4 inch rope
3. Four boxes of sand (tool chest type, with slanting roof to keep sand dry, approximately 4x4x4 feet) to be placed at each corner of the building on the slate roof.
4. Eight sand shovels (5 foot handles, square-nosed) two to be placed at each sand box.
5. Four 8-foot fire hooks, one to be placed at each sand box.



- 2 -

6. Four water pump tanks, with 30 feet of hose and dual nozzles, one to be placed at each corner of the building.
7. Eight 5-gallon water pails for additional water supply, two to be placed at each pump tank.
8. Dual water outlet, to be attached to the standpipe in the South corridor, 4th floor, with 200 feet of  $1\frac{1}{2}$  inch hose to be carried up to the roof and kept there.
9. Telephone and auxiliary communication systems to be installed on the roof.
10. Two watch stations (approximately 36 square feet in area) for use of the fire-watchers in sheltering communication and fire-fighting equipment against the elements.

(Attention is invited to the fact that portions of the roof are very steep and inaccessible. Walks and protective railings should be constructed thereon for effective fire-fighting).

INTERIOR OF THE BUILDING

Items 3, 4, 5, 6, 7, and 9 should be duplicated for each floor of the building.

The original recommendations for the full protection of the building are included in the report submitted by me in conjunction with Secret Service Agents Baca and Cawley.

Respectfully yours,

  
Daniel A. Deasy  
Consultant, Office of Civilian Defense

DEC 21 1941

My dear Mr. Secretary:

In further reference to your letter of November 25, 1941, (your file AB-6/QH(16)(411118) Serial 596130), and its enclosures, relative to the transfer of the Coast Guard to the Navy Department, and to the system of coordination proposed by the Navy for safeguarding shipping in the territorial waters of the United States, I am enclosing a draft of instructions, which it is proposed to send to Collectors of Customs and Supervising Customs Agents.

We shall be glad to have your comment on these proposed instructions before they are circularized.

Sincerely yours,

**[Signed] H. Hergenthan, Jr.**

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

By Message *Stuyvesant*  
*3:40*

REC/mah - 12-19-41

TREASURY DEPARTMENT  
 BUREAU OF CUSTOMS  
 WASHINGTON

To Collectors of Customs and Supervising Customs Agents  
 at all Seaports:

The Secretary of the Navy in a letter to the Secretary of the Treasury has solicited the full cooperation and assistance of Treasury agencies to be given to Naval District Commandants and Captains of the Ports in the discharge of their duties, particularly with respect to the safeguarding of ships, piers and other harbor facilities in the present emergency.

Collectors of Customs should consult with Naval District Commandants, Captains of the Port and other Federal and local officials sharing responsibility in any degree for the safeguarding of ships, piers, other waterfront structures and merchandise in transit for the purpose of perfecting coordination for this purpose. It seems desirable that regular channels of communication and coordination be established by port committees, designated coordinators or other means mutually agreed upon by the agencies affected. Collectors of Customs and Supervising Customs Agents are authorized to participate in the formation and functioning of appropriate coordination plans.

The objective of all such plans should be to increase the security of the ports through affording adequate protection to all shipping and port facilities, and to facilitate the orderly and efficient discharge by each agency of the duties committed to it by means of cooperation of all agencies in a harmonious plan of action, in which due care is taken to prevent the infringement by any one agency upon the lawful or accepted responsibilities of any other.

In view of the responsibility of Collectors of Customs with respect, not only to the proper enforcement of the customs and navigation laws, but also in the administration of export control and foreign funds orders and regulations, it seems desirable that primary responsibility for the control of activities on piers where vessels in foreign trade are berthed, and upon such vessels while at the piers, should remain in the Customs Service, except in so far as movements of explosives are involved. The safe-

guarding of pier approaches on both land and water sides, the general protection of piers and vessels against fire and other hazards, the movement of vessels within the harbor, and concerted measures to be taken in case of enemy attack or threatened attack are either responsibilities of other agencies or matters to be considered under some plan of coordination of all interested agencies.

Because of the heavy responsibility resting upon the Navy for the protection of harbors and shipping under war conditions, the closest possible liaison should be maintained with the appropriate officers of the Navy.

Very truly yours,

Commissioner of Customs.

342 *[Handwritten initials]*

Washington, D.C., December 24, 1941.

To

All Collectors of Customs

232-T. Circular Telegram 210-T dated December 9, 1941 prohibiting the exportation of aircraft, aircraft parts, accessories, or equipment to any destination whatever, together with all subsequent circular telegrams modifying this prohibition, are hereby revoked. Accordingly, you are authorized to clear shipments of aircraft, aircraft parts, accessories, or equipment without regard to Circular Telegram 210-T. The general and unlimited licenses previously in effect remain valid. In all other cases individual export licenses are required and those which have been issued remain valid.

KERR, CHIEF, OFFICE OF EXPORT CONTROL

343

Treasury Department  
Division of Monetary Research

Date Dec. 26 1941.

To: Secretary Morgenthau

This calls for no decision  
on your part, but I thought you  
would be interested in the portion  
marked with red crayon.

MR. WHITE  
Branch 2058 - Room 214½

## TREASURY DEPARTMENT

344

## INTER OFFICE COMMUNICATION

DATE December 24, 1941

TO Dr. White  
FROM Mr. Cairns

On May 25, 1941 the Portuguese vessel S. THOME carried some defense material out of the country contrary to law. The vessel has now returned and is in the Philadelphia customs district. The master has been arrested. Justice Department has asked us to seize the vessel and has stated there is probable cause for such seizure but has presented the matter in such a manner that the Treasury must satisfy itself that there is probable cause.

The State Department has requested the Treasury to defer the seizure until January 2, 1942 but not to let the vessel depart before that date. The Treasury Department is not to reveal that the State Department is in the picture. The Department of Justice has acquiesced in State Department's request to postpone the seizure. The State Department has further requested that no publicity whatsoever be given the matter. The State Department apparently expects some action on the part of Portugal vis-a-vis the Axis before January 2, 1942.

- 2 -

The Portuguese Minister has presented an urgent request to me to permit the vessel to depart but I have advised him that the matter is under consideration by various Government agencies and that, while everything is being done to expedite the vessel's departure, I was without authority to release it myself. He stated he would take the matter up in the State Department to enlist their aid in securing the vessel's departure. State Department is expecting such a request from him.

Huntington Cairns



DEC 24 1941

TO THE PRESIDENT OF THE UNITED STATES:

Section 3(c) of the Trading with the enemy Act makes it unlawful to transmit outside the mail any tangible communication from or to the United States. The same section makes it unlawful to transmit any communication to the enemy. Both forms of communication may be made if licensed.

By Article XI of Executive Order No. 2729-A, dated October 12, 1917, the administration of section 3(c) was vested in the Secretary of the Treasury. The Secretary of the Treasury therefore has at present the licensing power under section 3(c).

After discussions with Director of Censorship Price, it has been determined that the Treasury Department should keep the administration of section 3(c) so far as it relates to communications outside the mail. This, for the reason that the Customs service is best fitted to handle it.

On the other hand, it was agreed that the administration of section 3(c), insofar as it concerns

- 2 -

communications with the enemy, should be vested in the Office of Censorship. The attached order will accomplish the agreement reached with the Director of Censorship. Your approval in the indicated place is requested.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Attachment.

*Delivered by Secret Service 3:30  
Copies to Thompson  
HMC*

ERF:fn  
12/24/41

(T. D. )

Procedure for administering the duties imposed upon the Secretary of the Treasury by Articles XI and XIII of Executive Order No. 2729-A, dated October 12, 1917, under the Trading with the enemy Act, Act of October 6, 1917.

TREASURY DEPARTMENT, December , 1941

To officers of the Treasury Department and others concerned:

By virtue of the authority vested in the Secretary of the Treasury by Executive Order No. 2729-A, dated October 12, 1917, I hereby adopt the following administrative procedure deemed necessary and proper for the executive administration of Article XI, vested by said Executive Order in the Secretary of the Treasury; such administrative procedure to remain in effect unless and until modified or superseded by direction of the Secretary of the Treasury.

(1) I hereby designate the Office of Censorship to act as the agency of the Secretary of the Treasury to administer the authority vested in the Secretary of the Treasury relative to the sending, taking, or transmitting, or attempting

- 2 -

to send, take, or transmit, out of the United States, and to issue licenses and exemptions under such regulations or conditions as the said Office may from time to time prescribe, to send, take, or transmit out of the United States, any letter, or other writing, book, map, plan, or other paper, picture, or any telegram, cablegram, or wireless message, or other form of communication intended for or to be delivered, directly or indirectly, to an enemy or ally of enemy. All applications for such licenses shall be made to the Office of Censorship in the form prescribed by it.

(2) I hereby designate the Bureau of Customs in the Department of the Treasury to administer and to issue licenses (except licenses to send, take, or transmit out of the United States any letter, writing, or tangible form of communication intended for or to be delivered, directly or indirectly, to an enemy or ally of enemy) in respect of the authority vested in the Secretary of the Treasury under Article XI of said Executive Order relative to sending, or taking out of, or bringing into, or attempting to send, take out of, or bring into, the United States

- 3 -

any letter or other writing or tangible form of communication  
except in the regular course of the mail.

(Signed) H. Morgenthau, 

Secretary of the Treasury.

Approved, December       , 1941.

The White House.

(T. D. )

Procedure for administering the duties imposed upon the Secretary of the Treasury by Articles XI and XIII of Executive Order No. 2729-A, dated October 12, 1917, under the Trading with the enemy Act, Act of October 6, 1917.

TREASURY DEPARTMENT, December 24 , 1941

To officers of the Treasury Department and others concerned:

By virtue of the authority vested in the Secretary of the Treasury by Executive Order No. 2729-A, dated October 12, 1917, I hereby adopt the following administrative procedure deemed necessary and proper for the executive administration of Article XI, vested by said Executive Order in the Secretary of the Treasury; such administrative procedure to remain in effect unless and until modified or superseded by direction of the Secretary of the Treasury.

(1) I hereby designate the Office of Censorship to act as the agency of the Secretary of the Treasury to administer the authority vested in the Secretary of the Treasury relative to the sending, taking, or transmitting, or attempting

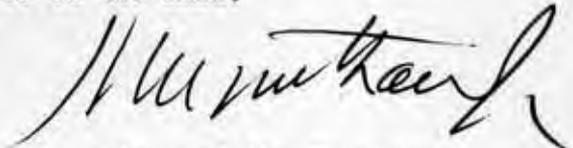
- 2 -

to send, take, or transmit, out of the United States, and to issue licenses and exemptions under such regulations or conditions as the said Office may from time to time prescribe, to send, take, or transmit out of the United States, any letter, or other writing, book, map, plan, or other paper, picture, or any telegram, cablegram, or wireless message, or other form of communication intended for or to be delivered, directly or indirectly, to an enemy or ally of enemy. All applications for such licenses shall be made to the Office of Censorship in the form prescribed by it.

(2) I hereby designate the Bureau of Customs in the Department of the Treasury to administer and to issue licenses (except licenses to send, take, or transmit out of the United States any letter, writing, or tangible form of communication intended for or to be delivered, directly or indirectly, to an enemy or ally of enemy) in respect of the authority vested in the Secretary of the Treasury under Article XI of said Executive Order relative to sending, or taking out of, or bringing into, or attempting to send, take out of, or bring into, the United States

- 3 -

any letter or other writing or tangible form of communication  
except in the regular course of the mail.



Secretary of the Treasury.

Approved, December 26, 1941.

The White House.



ORIGINAL FILED WITH FEDERAL REGISTER

OCT 20 1917

My dear Mr. Director:

I have promulgated the enclosed order delegating the powers vested in me by Article XI of Executive Order No. 2729-A, dated October 12, 1917, providing for the administration of section 3(c) of the Trading with the enemy Act. Section 3(c) reads:

"SEC. 3. That it shall be unlawful--

(c) For any person (other than a person in the service of the United States Government or of the Government of any nation, except that of an enemy or ally of enemy nation, and other than such persons or classes of persons as may be exempted hereunder by the President or by such person as he may direct), to send, or take out of, or bring into, or attempt to send, or take out of, or bring into the United States, any letter or other writing or tangible form of communication, except in the regular course of the mail; and it shall be unlawful for any person to send, take, or transmit, or attempt to send, take, or transmit out of the United States, any letter or other writing, book, map, plan, or other paper, picture, or any telegram, cablegram, or wireless message, or other form of communication intended for or to be delivered, directly or indirectly, to an enemy or ally of enemy: Provided, however, That any person may send, take, or transmit out of the United States anything herein forbidden if he shall first submit the same to the President, or to such officer as the President may direct, and shall obtain the license or consent of the President, under

- 2 -

such rules and regulations, and with such exemptions, as shall be prescribed by the President.

It is intended by the order to retain in the Department of the Treasury the administration of the powers relating to tangible forms of communication outside the regular course of the mail, granted by that portion of section 3(c) preceding the semi-colon. Those powers are delegated by the order to the Bureau of Customs in this Department.

The administration of the powers granted by that portion of section 3(c) following the semi-colon, relating to all forms of communications intended for the enemy or allies of enemy are delegated to the Office of Censorship.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Byron Price,  
Director of Censorship,  
Office of Censorship,  
Washington, D. C.

By Messenger

*Dixon*

4:15

JAG:fsq  
12/24/41

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OFFICE OF LEND-LEASE ADMINISTRATION  
FIVE-FIFTEEN 22<sup>1</sup>/<sub>2</sub> STREET NW.  
WASHINGTON, D. C.

E. R. Stettinius, Jr.  
Administrator

CONFIDENTIAL

December 24, 1941

MEMORANDUM

To: Secretary Morgenthau  
From: E. R. Stettinius, Jr.  
Subject: Progress in obligating and allocating  
Lend-Lease funds

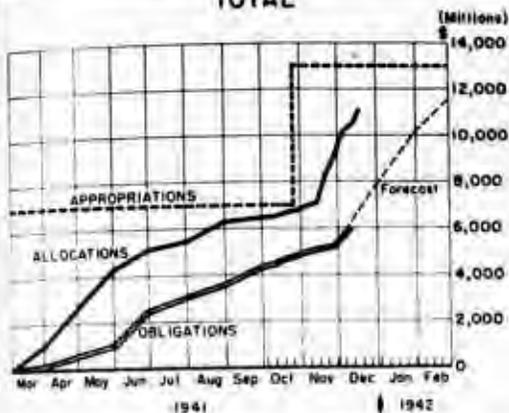
The attached chart on the above subject  
is sent you for your confidential information.

Attachment

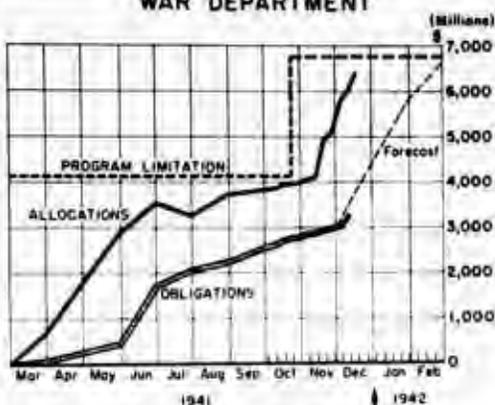
*ES-*

## ALLOCATIONS AND OBLIGATIONS LEND-LEASE ACT

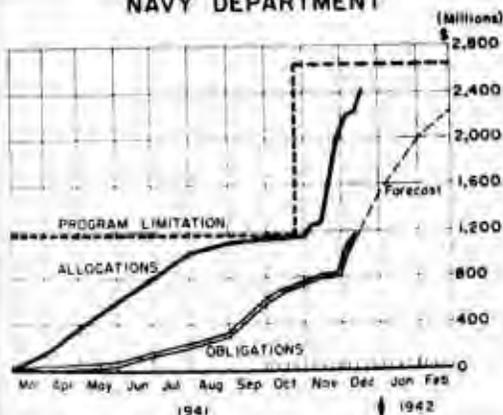
**TOTAL**



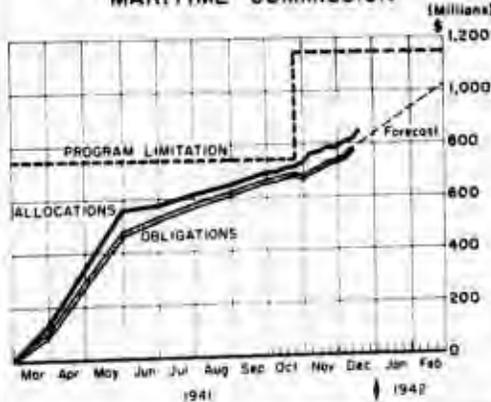
**WAR DEPARTMENT**



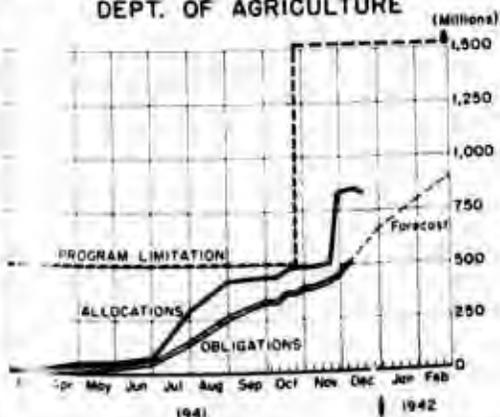
**NAVY DEPARTMENT**



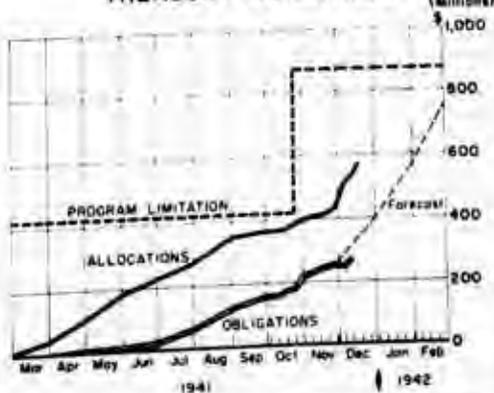
**MARITIME COMMISSION**



**DEPT. OF AGRICULTURE**



**TREASURY DEPARTMENT**



December 24, 1941

Mr. Livesey

Mr. Dietrich

Will you please send the following cable to the American Embassy, Chungking:  
"For Fax from the Secretary of the Treasury.

We have not yet received a reply to our 299 of December 15, and would appreciate any information you can give us about Freese and Taylor."

FD:lap-12/24/41

## TELEGRAM SENT

BS

GR.Y

December 24, 1941

Midnight

...EMB..SSY

CHUNGKING, (CHINA.)

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FOR FOX FROM THE SECRETARY OF THE TREASURY

QUOTE We have not yet received a reply to  
our 299 of December 15, and would appreciate any  
information you can give us about Press and Tay-  
lor. END QUOTE

HULL  
(FL)

FD:FL:ME

TREASURY DEPARTMENT

360

INTER-OFFICE COMMUNICATION

DATE December 24, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$27,000
Purchased from commercial concerns	\$ 3,000

Open market sterling was quoted at 4.03-3/4, and there were no reported transactions.

The New York exchange market was lifeless. Nominal closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	13-3/4% discount
Argentine peso (free)	.2355
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5310
Venezuelan peso (free)	.2700
Cuban peso	Par

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

The Federal Reserve Bank of New York reported that the Bank of Canada was making two shipments of gold with a combined value of \$7,653,000 from Canada to the Federal for account of the Government of Canada, for sale to the New York assay office.

In London, spot and forward silver were unchanged at 23-1/2d and 23-9/16d, respectively. The U. S. equivalents were 42.67¢ and 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Candy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

The report of December 17, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of

-2-

\$4,527,000, an increase of \$150,000 in the short position since December 10. Net changes were as follows:

<u>Country</u>	<u>Short Position December 10</u>	<u>Short Position December 17</u>	<u>Change in Short Position*</u>
England**	\$ 212,000 (Long)	\$ 150,000	+ \$362,000
Europe	2,588,000	2,616,000	+ 28,000
Canada	543,000 (Long)	701,000 (Long)	- 158,000
Latin America	47,000 (Long)	57,000 (Long)	- 10,000
Japan	160,000	159,000	- 1,000
Other Asia	2,401,000	2,386,000	- 15,000
All Others	<u>30,000</u>	<u>26,000</u> (Long)	- 56,000
Total	\$4,377,000	\$4,527,000	+ \$150,000

\*Plus sign (+) indicates increase in short position, or decrease in long position.  
 Minus sign(-) indicates decrease in short position, or increase in long position.

\*\*Combined position in registered and open market sterling.

CONFIDENTIAL



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NUMBER 11

SECRET

COORDINATOR OF INFORMATION

# THE WAR THIS WEEK

December 18-24, 1941



*Printed for the Board of Analysts*

Copy No. 33

*Secretary of the Treasury*

## THE WAR THIS WEEK

December 18-24, 1941

The war this week has been punctuated by both Axis successes and Axis reverses. But the total picture is one to encourage those who believe that the Allies can lose the Battle of the Pacific but still win the war—in the Atlantic.

The defeat of the Axis requires the defeat of Germany, and the Nazis are now in retreat on two fronts. In the east the German legions are recoiling before the blows of a general Russian counter-offensive. In Libya Axis forces are being harried toward Benghazi by a three-pronged drive which threatens their envelopment.

Continuing Japanese advances in the Far East have dangerous implications for the future of China and the Netherlands Indies, but they are no adequate offset for current allied successes in the west.

### *Where Can the Germans Stop?*

Only events can answer the tantalizing question now posed for all military observers: where can the Germans stop? As the Nazi offensive came to a grinding halt before Moscow, the German leaders faced the problem of finding a defensible line for winter stabilization. Their decision, obviously reached in the greatest secrecy, has been the subject of widespread speculation. Various reports reaching London and believed reliable, agree, however, in indicating a conflict between high Nazi and military circles concerning the line of stabilization.

The abrupt assumption by Hitler of personal command of the German armies is perfectly consonant with such a struggle. It may have a much wider meaning and portend a break between army and party of incalculable consequences.

*German Difficulties in the East*

The Fuehrer's dramatic act is only the most striking evidence of the difficulty of the German position. Foreign correspondents in Moscow report the terrain northwest of the capital is a graveyard of Nazi vehicles lying deep in snow. A high and reliable military source notes that more and more evidence is accumulating of the great difficulties which the Germans have experienced in mechanical transport maintenance. According to the same source, an increasing proportion of substitute materials is appearing in German uniforms; a Nazi offer to exchange thirty locomotives and rolling stock for woolen blankets was refused by the Turks. And Goebbel's pathetic appeal to the German people for heavy clothing for the winter-bound troops admitted Russian superiority in numbers and matériel.

*The Reluctant Finns*

The Nazis' allies in Finland are war-weary, deeply anxious concerning the mounting casualty lists, and discouraged because Leningrad's continuing resistance means prolongation of the war for them. The members of the Finnish Diet no longer believe that Germany can win, according to a member of that body, but they recognize that the country is shackled to the Nazi war machine by the latter's military might and by the Finns' need of food and their fear of Bolshevism.

*Sweden Resists*

The difficulties of the Germans in Russia can also be measured by the resistance of the Swedes to recent Nazi demands. With the descent of the Arctic winter, the morale of German troops in northern Finland has rapidly worsened, and the Nazi command has sought to remedy this situation through periodic furloughs in the south. But when they made urgent demands last week on Sweden that their troops be allowed to pass through that country in transit to and from Finland, these requests were flatly refused. Official German ire was deeply aroused.

The Swedes have proved equally deaf to semi-official Nazi suggestions that demobilization would direct Swedish manpower into more useful channels. Official circles in Sweden are now said to feel that Nazi reverses in the east make it unlikely that Germany will soon take aggressive action against Sweden, a move which would bring slight advantages to the Germans and would cost them an estimated hundred thousand men.

#### *Toward Encirclement in Libya*

Axis forces are rapidly withdrawing far westward from Derna before pursuing British troops, and a British flying column has reached the coastal plain south of the Gulf of Sidra. The Axis army is in imminent danger of having its retreat completely cut off and losing Bengazi as well.

Bengazi would offer the British an important air and naval base for operations against Axis naval forces and against southern Italy. If the British move far west of the Bengazi sector, they will face once again the difficult problems of elongated desert communications, but it may prove necessary to take this risk in order to meet Axis forces reported by the press on Wednesday to be moving toward Spain on the way to North Africa.

#### *French North Africa Beckons*

The Axis predicament in Libya would seem to make a Nazi move in French North Africa imminent. To be sure there are no observable indications of Nazi pressure on Spain, and Vichy has declared officially to us that she will be neutral in the conflict between the Axis and the United States. There had until Wednesday been no important movement of German troops into southwestern France recently, and, on the contrary, it is reported that the 88th German Division has left Biarritz, probably on the way to Russia. Other divisions south of Bordeaux are said to have little combat value.

On the other hand there are important reasons for believing

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that the Germans may soon act in Africa. The logic of the situation demands that they have substantial forces in Tunisia in case the British cut off most of the Axis army in Libya and drive the remnants as far west as the French colonial frontier. A concentration of two to three thousand German planes is reported to be under way in Italy where Air Marshal Kesselring is now said to have been sent. Spain is reported to have confided in the Portuguese government, in accordance with the terms of their treaty, that the Germans will move troops into Spain in late December with the permission of the Spanish government. The Timor incident was the occasion for an outburst of righteous Axis indignation. In Portugal itself Salazar's address to the National Assembly complained that his country had loyally observed all of its obligations toward Britain, but that the latter had failed to treat Portugal as an ally and friend. The reaction of the Portuguese public, however, was in general one of regret that Britain had placed Portugal in a position so fraught with difficulties.

### *New Light on Nazi Demands on Vichy*

The French Ambassador to Switzerland, returning from a sojourn in Vichy, is reported as throwing interesting new light on the meeting at Saint Florentin, which confirms and extends earlier reports of Nazi high pressure tactics. Goering, it is said, demanded the use of the French merchant marine, bases in French Africa, French adherence to the New Order, and the cooperation of the French fleet in convoying. Pétain resisted, and Goering was disinclined to force the pace because he then felt that Rommel could hold his position for a matter of two months. In the light of the present evolution of events in Libya, however, the Nazi hammer may descend at any time upon the hapless Pétain. Should the Marshal withdraw or be ousted, the latest evidence, from the same source, depicts Darlan as a willing and convinced collaborator,

later alike of Britain and America, believer in an Axis victory.

#### *Airfields in West Africa*

Recent activities in French West Africa offer further evidence of a collaborative effort of the Nazis and Vichy. New two thousand meter runways for the airfields at Thies and Kaolack are longer than those required for any planes Vichy now possesses, and it is believed that the Germans will shortly send heavy bombers to this area. The relative proximity of these fields to the coast suggests that the bombers are to be used for the destruction of shipping. The fields are so placed as to threaten Bathurst, one of the British convoy concentration points.

Three further airfields are being developed at Nzerkore, Gueckedo, and Macentain. All lie along the Liberian border and in a position to menace the air station which Pan-American Airways is developing in Liberia.

All of these bases could be used to support a German occupation of the Cape Verde Islands or to deny these islands to the Allies.

#### *Japanese Offensive Continues*

Despite repeated successes by the defenders of the Philippines and some landings by the attackers, no issue to the battle is yet in sight. On the other hand, British resistance at Hong Kong has all but expired, and the fall of the colony will deliver to the Japanese one of the two principal positions guarding the route to the South China Sea. The Japanese have begun the invasion of Sarawak. They have pushed southward in Malaya, using infiltration tactics in the jungles, and have by-passed the Island of Penang and forced its evacuation, thus acquiring a port on the Indian Ocean. The new British line is only some 300 miles from Singapore, the Japanese objective.

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The Japanese are reported to be assembling boats at Victoria Point, the southernmost tip of Burma, for action against the air base at Mergui, to the north. They are also moving north through Thailand and are threatening the invasion of eastern Burma. With this move attention is focussed on the impending menace to the Burma Road, China's life-line, along which Chinese troops are now moving southward into Burma.

*Alternatives to the Burma Road*

The Burma Road can be cut by a determined Japanese drive from upper Thailand through the Shan States of eastern Burma which would strike a metalled road from Kengtung into Burma. Such a Japanese coup is not at all impossible in the near future.

If the road into China were cut by Japanese entrance into Burma, there would be no way of getting supplies into China except by air or by difficult land transport. Air transport across central Asia would be practically impossible in any volume because of the distance and the gasoline required. Truck transport would likewise require Russian cooperation and a tremendous investment.

Air transport from the nearest railhead in India, at Sadya, is impossible because of 15,000 foot mountains. The remaining alternative would be to invade the coast of China past the Japanese bases on Formosa and Hainan Island.

If the Burma road were cut, supplies of gasoline, essential for domestic transportation, would be cut off, and the entire program of American lease-lend military aid would stop. A consequent decline or collapse of Chinese resistance would necessarily free Japanese resources and might contribute to Japanese success at Singapore.

Russian intentions in the Far East have still to be clarified, but our representative at Vladivostok reports that it is generally believed there that war between Russia and Japan may break out before the middle of January. The appoint-

ment of Marshal Voroshilov as Commander of the Soviet Army in the Far East may well reflect Russian anxieties concerning the seriousness of the situation.

Australia is reported to have been stunned by the initial reverses of the United States and by the exposed position in which it has been left as a result. Fears are expressed that America may concentrate her energies in the north and act slowly, and that as a result the Japanese may cause great damage in the South Pacific. This situation, it is said, has produced great unity within the government.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 24, 1941

TO: Secretary Morgenthau  
FROM: Mr. Kamarek  
Subject: Summary of Military Reports

Pacific Theater

The Japanese now have 400 airplanes in southern Indo-China and southern Thailand. During the first four days of the Japanese attack against Malaya, the Japanese used, on the average, 120 planes per day. (Measured in European terms of air forces of thousands of planes, it is obvious that air operations to date in the Pacific are on a fairly small scale. It would seem that Japanese successes to date have not been due to great Japanese strength, but to the relatively greater weakness of the Allies.)

The British report that Japanese bombers, when attacked by fighters or anti-aircraft fire, immediately break formation in disorder.

(U.K. Embassy, Operations Reports, December 21, 22, 1941)

Battle of the Atlantic

A Hurricane catapulted from a ship escorting a convoy to England, destroyed two Focke Wulf (German 4-motor bombers and reconnaissance spotters for submarines) and damaged a third east of the Azores on December 19.

An auxiliary aircraft carrier escorting a convoy to England, was sunk by submarines 500 miles west of Ireland on December 21. (This must be the aircraft carrier the Germans are claiming they sank.)

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(Both of these reports show the recently-developed technique of escorting a convoy with an umbrella of airplane protection against bombers, as well as destroyer protection against submarines.)

(U.K. Embassy, Operation Reports, December 21, 22, 1941)

### Libyan Campaign

The British believe that the Germans will make every effort to withdraw their airforce of more than 200 planes in Cyrenaica, to Tripolitania. This may, however, be impossible owing to the inadequate ground facilities around Tripoli at present. Part of the force may have to withdraw to the Aegean area or to Sicily. (The number of Axis planes left is probably about a third of the original Axis strength used in the Libyan campaign. The British have captured and destroyed around 150 Axis airplanes by ground action alone.)

(U.K. Embassy, Operations Report, December 21, 1941)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 24, 1941

TO Secretary Morgenthau  
FROM Mr. Kamarck

Subject: Excerpts of Possible Interest from Military Journals

1. American Planes

(a) British Comments

"The Douglas Havoc II"

"One of the three most useful types of aeroplane being supplied to the Royal Air Force from the United States at present is the Douglas DB-7B, which, in its bomber form, is called the Boston III, and, converted into a night fighter, is known as the Havoc II.

"The modifications which turn the Boston into a Havoc are made in this country at present. There are various forms of Havoc--some still secret--in all of which the aeroplane fulfils every demand made on it. The Havoc II is noteworthy for its great offensive armament. The transparent material round the bomb aimer's position of the Boston is removed so that the pilot will not be distracted by reflections at night.

"...Havocs are being used for 'Night Intrusion' work, flying over German-occupied aerodromes in France and shooting down the enemy bombers as they come home to roost, thinking their night's work is done. Usually it is. Having made play with its great though unspecifiable collection of guns--the Havoc is able to administer further chastisement by dropping the bomb load, too...."

(Source: The Aeroplane, October 17, 1941, p.435)

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(b) Russian Comments"Red Airforce Learns to Use American  
Planes"

"The American machines are very stable and have great flexibility of speed. They have some disadvantages, but our pilots' skill compensates for these.

"American engineers admire the speed with which the Soviet technicians learn to handle the American machines. Our friends, who have flown oceans many times, smile at our men and say: 'OK. OK.'

"The handling of the American machines in the air is quickly learned. It took only two days for Golov's battalion to learn the flying technique of the American fighter planes. Other pilots were instructed in seven or eight days.

"Simple in construction and easy to manage, the American fighter is equipped with strong weapons. In cooperation with our own falcons, the new plane will become a terrible new weapon. We shall receive more of them every day."

(Source: Red Army Paper, Krasnaya Zvezda, November 12. U.S.S.R. Embassy Information Bulletin, November 14, 1941)

## 2. German Air Power on the Defensive

(The following article illustrates the disadvantages of the German central position. So long as Germany has the initiative, she can concentrate forces against one of her enemies on the periphery, while her opponents cannot shift their forces as rapidly around the circumference of the circle to meet the threat. But when her enemies attack from every point of the circumference at once, German air resources, having to be dispersed to meet the various threats, prove to be inadequate on every front.)

"...Each front in the War is inextricably linked. We know that a very large proportion of the total fighter strength of the Luftwaffe is detained in France in a purely defensive role. It is suffering steady casualties from our fighter sweeps and bomber sorties. We know that in Russia, deprived of this fighter element, the Luftwaffe has been badly mauled. What is more, the lack of fighters in Russia has meant that the Luftwaffe cannot give its tanks the air support they demand, and as a result the Russian dive-bombers have inflicted very heavy losses. The Stormovik (Russian attack plane) may not be a formidable weapon when opposed by a strong fighter screen. But when that screen is a thousand miles away attempting to beat off attacks from England, then the Stormovik can prove its worth - and has. Thousands of shattered German tanks bear witness to this plain fact.

"The third point depends upon the other two. No fighters can be spared from France to go to Russia and because of this few bombers or Army-support aeroplanes can be spared from Russia to go to Africa. The 'Afrika Korps' must fight its own battle and call for its air support from Italy. How efficient this Italian support is likely to be is shown by the destruction of 36 Axis aeroplanes in six days by one squadron of Beaufighters without a single loss.

"The new campaign has started with British air superiority. That air superiority is fast being translated into air supremacy. In the long run it may prove the most important result of the whole combined operations, for it opens up new possibilities of a knock-out blow at Italy and air mastery over the Mediterranean."

(Source: "Co-operation in the Near East;  
The Aeroplane, November 28, 1941, p.583)

5.

"The Efficacy of Strategic Bombing"

By

Air-Commodore L.E.O. Charlton

"The combatant nations in this great war have now...had a large and variable experience of bombing.

"...One thing at any rate has been put beyond all doubt. The destruction of civilian hearths and homes, short of a holocaust that would rob the war machinery of the hands that drive it, is both unprofitable and useless as a means of waging war....

"But now we are confronted with a situation which, at the commencement of hostilities, would have passed belief...ever since Soviet territory was invaded, we have, weather permitting, been pounding Germany with bombs in a large-scale, and well-planned, effort to render aid thereby to Russia and divert the attention of the Nazi bombers from the Eastern to the Western front. With this object in view we have been exclusively attacking those vital spots connected with the Nazi war supply, and have religiously refrained from knocking over blocks of flats. We have lost considerably on these ventures, but the glowing picture of results achieved has upheld our firmness to continue. Strategic bombing has been put on trial as never before!

"...The remarkable, and disconcerting fact remains that the Nazi war establishments have been subjected to a ruthless air bombardment by the whole weight of our growing bomber fleet, and yet, to all appearances, their wheels continue to revolve. So little, in fact, have they, apparently, been damaged that the enemy has not thought it worth his while to batter ours in return, even at the cost of lessening his strokes elsewhere, and so endeavouring to redress the mischief he, himself has undergone. What then is the explanation? Are we dealing futile blows? Has the hour of the bomber struck, and will the local air and ground defences, neglectful of reprisal measures, be sufficient answer for the future?

"There is at present no certain answer to this conundrum....It is mathematically certain that a sufficiency of well-directed bombs will put 'finis' to the war. But when will that ideal be accomplished?....It is becoming more and more a lesson of experience that a specific target area must be constantly attacked if it is required to blot it out. Human hands, and the ant-like qualities of men, can make the most effective use of respite to restore a given situation. A succession of non-flying nights can undo completely the good that has been done. The necessary distribution of attacks involves long periods of immunity for the lately well-bombed objective, during which it can recover its position as a cog on the circumference of a wheel of war. If real and lasting good is to be looked for from strategic bombing, then there should be, it would appear, sufficient weight of bombs to keep the main objectives pinned, and so perpetually out of action. The process must be one of strangulation, rather than of body blows, and the windpipe must be compressed until life becomes extinct...."

(Source: The Fortnightly, November, 1941, p.480-482)

4. "German Tactics Against the Russians"

"...Successful as ... (Blitzkrieg) tactics proved against the French, they do not appear... to have been employed by the Germans in the Russian campaign. This is due in part to the vastness of the theater of operations but mainly to the number and quality of the Soviet troops in both training and equipment, which makes them stubborn and dangerous opponents. As a result, the Germans have found it impossible to take liberties with these adversaries whose unique morale causes each unit and each individual to fight to the death.

"As a rule the German armored forces in Russia have advanced cautiously in a wedge-like formation, closely supported by the foot infantry divisions. In addition, the Air Force has rendered close support to the ground troops, seldom operating more than 200 miles behind the hostile front....

"In this wedge formation, Russian forces that advance between or are by-passed by the armored divisions are dealt with by the advancing German infantry divisions.

"The tactical result of the operations of these German armored wedges, closely supported by the infantry and aviation, has been the continuous breaking off and surrounding of portions of the Russian forces. This encirclement of hostile forces is called by the Germans a Kessel. This is derived from a German hunting term Kesseljagen, in which the game, having been encircled, is driven in from all sides toward the center for the kill.

"In case the Kessel is very large it is broken up into smaller areas by the armored forces.

"Thus the two great concepts of the wedge and Kessel stand out as characteristic of the German operations in the East....

"An official report of the German High Command describes the battle of Smolensk as follows:

" ...These encirclement operations were carried out as a rule in the following manner: After splitting off an enemy group the shock wedge would then swing to the right or to the left and by quick turns cut out a sector from the enemy front, then with extraordinary rapidity, before the enemy realized it, the encirclement would be completed.

" Often enough the Russians tried to save the situation by attacking the wedge on the flanks and trying to break through the German encircling movement. They also attacked the encircling forces from the rear and attempted to carry out encircling operations of their own. So at times there were situations when the location of the front was known only to the German High Command, while the individual soldier had the impression that the front was everywhere - in front, behind and to the right and to the left.

" Due to the tenacity of the Russian defense and the way their troops preferred to fight and die rather than to surrender, every encircled area became a bloody battlefield. If it is remembered that the Russians are very skilled in the construction of field works, that they are masters of camouflage and know how to exploit to the full the possibilities of every terrain feature, then it can be understood that the desperate masses in the encircled areas utilized the areas for defense in a manner that was most effective. Every village, every house, every wall, every strong point was utilized, and natural obstacles were also used in the defense and their organization completed by barriers. So then every Kessel was a fortified area in which there were not only considerable masses of men for defense but also large quantities of arms and materiel....! "

(Source: U.S. The Field Artillery Journal, November, 1941, pp. 810-815)

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MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, December 24, 1941

INFORMATION BULLETIN  
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ACTIVITIES OF THE FIFTH COLUMNSOURCE

This bulletin is a compilation of reports on various types of Fifth Column activities. It summarizes some of the methods followed by enemy agents in time of war.

CONTENTS

1. PLANS AND METHODS OF THE FIFTH COLUMN
2. THE GERMAN FIFTH COLUMN IN THE WAR IN EUROPE, 1939-1940
3. THE JAPANESE FIFTH COLUMN IN MALAYA, 1941

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ACTIVITIES OF THE FIFTH COLUMN

1. PLANS AND METHODS OF THE FIFTH COLUMN

a. The Aim of the Fifth Column

The aim of the Fifth Column of the Axis Powers is to do everything possible to assist in bringing about an Axis victory. Its chief methods of activity are four:

- (1) To conduct accurate espionage work and transmit reports;
- (2) To demoralize public opinion with a view to breaking the will of the people to resist; to cause panic and confusion in order to make effective resistance impossible; to foment public dissatisfaction with the Government or with the armed forces; to promote discord among the Allies;
- (3) To carry on sabotage on a well-ordered military plan;
- (4) To render assistance to invading troops.

b. Preliminary Methods of the Fifth Column

Enemy schemes are carried forward by the methods of infiltration, and cover everything from pressure on individuals of alien origin to the exercise of pressure upon Government officials or political parties. Axis consular officials and employees of Axis business houses are to be suspected. Axis cultural agencies and foundations have often proved to be nothing more than clearing houses for Fifth Column activity.

c. The Fifth Column and Intelligence

Some of the activities carried on by the Fifth Column in the field of intelligence are:

- (1) Furnishing the enemy with information, including troop dispositions, by short-wave radio and otherwise;
- (2) Collecting and dispatching accurate data for military maps;
- (3) Tapping wires or seizing headquarters, and then dispatching forged orders to troops, ordering retreat or surrender;
- (4) Creating confusion among civilians by ordering them to evacuate areas unnecessarily, etc.

d. First Active Steps of the Fifth Column

Active Fifth Column measures for preparing a nation for defeat and invasion include the seizure or destruction of:

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- (1) Centers of communication, telephone exchanges, wireless and power stations;
- (2) Transportation centers, air, sea, and land;
- (3) Centers of importance to the Government and the fighting services;
- (4) Any other objectives which are vital to the life of the country, e.g., essential factories.

e. The Fifth Column and the Air Force

In the European War, the Fifth Column was of great aid in the successful operations of the German Air Force. The Fifth Column attempts:

- (1) To capture airdromes and potential landing grounds for aircraft (including seaplanes);
- (2) To guide parachutists and troop-carrying machines to landing grounds; to guide bombers to targets--using for these purposes flares, torches, panels, and other signals;
- (3) To lay up stores of civilian clothing and uniforms of the armed forces of the invaded country for the disguise of parachute or other troops or agents.

f. The Fifth Column and Its Aid to an Invading Army

In case of the landing of Axis troops, the Fifth Column would attempt:

- (1) To capture key points or strongholds and hold them until the arrival of land forces;
- (2) To harass troops and police by sniping; to draw their fire away from the enemy by seizing positions and inviting siege;
- (3) To carry out all obviously useful sabotage, including not only demolitions, but the substitution of water for gasoline, sand for explosives, etc.;
- (4) To prepare lists of citizens to be furnished with passes by the invaders, and to prepare other lists of citizens to be arrested.

g. The Fifth Column and Command Centers

Fifth Column activities are directed especially against command and control centers. Efforts are made to seize headquarters, headquarters personnel, and communication centers of all kinds.

h. Sabotage

(1) The activities in the field of sabotage are extensive. The following is a general indication of the forms which sabotage may

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taker:

(a) Attack on Military Objectives

1. Bases, supply depots, cantonments, and posts;
2. All centers and junctions where any disruption of facilities will hinder mobilization, troop movements, and service of supply;
3. Military equipment, munitions, and stores, in storage or transit, not yet delivered to the Army;
4. Arsonals, magazines, and accumulated war reserves, many of which may be mined in advance.
5. Morale of troops and subversion of civilian employees.

(b) Attack on Military Aviation

1. Planes and ground services;
2. Lighting and other vital equipment of landing fields, radio beacons, and other aids to aerial navigation;
3. Planes in transit, storage, or process of manufacture;
4. Engines in process of overhauling or manufacture, and in storage;
5. Fuel, lubricants, munitions, special sights, and other supplies and equipment in use, storage, or process of manufacture.

(2) The Sabotage of Ships

The Axis plans for sabotage of warships and other vessels include:

- (a) Contamination of food at its source;
- (b) Contamination of water by visitors at receptions on board ocean-going vessels;
- (c) Concealment of bombs in coal or other stores;
- (d) Concealment of incendiary flasks which set fires later.

1. Organization of Axis Agents in the United States

Axis Fifth Column agents in the United States are divided into three main groups:

(1) General Group: Axis citizens residing in America who are each week obliged to attend meetings and to provide such information as they may have collected,

(2) Military Group:

- (a) Those agents, duly accredited and otherwise, in America

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who secure military information through whatever channels are available;

(b) Sabotage section;

(c) Persons designated as actual spies who would continue to function as such during a period of hostilities between the United States and Axis powers.

(3) Civil Group:

(a) This section includes workers in industry, particularly in armament and ammunition depots. These men are charged with active sabotage and espionage. Spies and saboteurs often pose as refugees. It must not be forgotten, moreover, that home ties may subject refugees to blackmail and consequent spy service for the nation from which they have fled.

(b) Another section spreads discontent, encourages strikes, and slows up production by every means possible.

2. THE GERMAN FIFTH COLUMN IN THE WAR IN EUROPE, 1939-1940

a. Poland

German Fifth Column activities were carried on with extreme efficiency and effectiveness in facilitating the advance of ground forces and in spotting targets for the Air Force. Germany found it comparatively easy to conduct subversive activities among the large German minority in Poland on the borders of the Reich.

Before the invasion began, rioting occurred among the German minority, and Polish officials were assassinated. This sort of activity was continued after the German advance, and the German Fifth Columnists aided the invaders in many other ways behind the Polish lines. The Germans were supplied with horses and with hidden stores of gasoline and food. Parachutists and troop transport planes were guided to landing grounds or warned of danger by signals. The locations of Polish troop headquarters, troop concentrations, batteries, and land mines were betrayed by secret wireless communications or signals from behind the Polish lines. Polish officers were assassinated. Polish troops and planes were fired on and billets were burned. False orders and rumors were circulated, causing much confusion. Military communication lines were cut so frequently that it was impossible to use them. German pilots reported that most of the landings of air-borne troops would have failed but for the system of Fifth Column signals, such as flaming haystacks and huts; sheets and newspapers arranged in special patterns; grain and grass cut in tell-tale shapes; and torch signalling.

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b. The Netherlands

As soon as the German invasion commenced, the Fifth Column came into action in many towns and cities. In The Hague, Dutch Nazis began to shoot from their houses. False reports and telephone calls reached the Dutch General Headquarters and valuable time was lost in checking them. Throughout the country the Fifth Columnists were waiting for parachutists and air-borne troops at prearranged points, ready to direct them. Cars were stolen for this purpose. Food, disguise, and hiding places were ready. Dutch armored cars, badly needed for fighting, were called off to round up armed bands of Fifth Columnists, who were prepared to engage them until the main German forces arrived. All this time aircraft were being guided by signals.

c. Belgium

In Belgium the Fifth Column's activities were more obscure; but sentries were found murdered, military telephone lines were constantly cut, and dissension was sown in the army.

d. Denmark

In Denmark the Fifth Column obtained control over the Copenhagen Telephone Exchange in a short time. Further activities were not necessary, as there was no resistance.

e. Norway

The classic example of sabotage and its allied activities of propaganda, espionage, and combatant intelligence is, of course, the effective work done by Major Quisling in paralyzing the Norwegian defense at the time of the German invasion. Because of the disastrous effect of this work on the Norwegian Naval Forces, a brief review of these operations is included.

At the time of the German invasion previously prepared plans were carried out to the letter, essentially as follows:

(1) All of the diplomatic and consular corps, and all Press Attaches, Commercial Attaches, "business" advisors, Travel Bureau employees, and "cultural" groups (Nordische Gesellschaft), appeared in uniform and were revealed to be, without exception, Military or Naval Officers.

(2) Armed squads took over the offices and operating rooms of all telephone, telegraph, and radio stations and proceeded to send out their own orders.

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(3) The forts were ordered not to fire on the advancing German fleet. The fort at Oscarburg, before obeying its orders to surrender, fired on the Blucher and sank her with 1700 men and an Admiral and a General with their staffs. The fort at Kristiansand sank the Karlaruhe. When a nearby ammunition dump was blown up, the fort surrendered.

(4) Because orders were withheld, the mines, which should have been laid in the fjords, remained aboard the mine layers in the harbor until the morning of the 9th, the day of invasion.

(5) Mobilization orders were held up until 5 a.m. on the 9th.

(6) Orders were issued to various army units to lay down their arms.

(7) Quick raids by commandeered automobiles were made into areas occupied by Norwegian troops for the capture of divisional staffs.

(8) The Germans were in possession of maps far superior to those used by the Norwegians. The preparation of these was obviously the result of long and diligent work by expert cartographers.

(9) The key officers of every German advance column told observers of spending many of their vacations in Norway. For example, the Naval officers at Bergen had spent their summers yachting in that area. The same was true at Stavanger and Oslo. Army officers were partial to the valleys and had fished in all the prominent streams. In several cases Norwegian forces were trapped because the Germans knew the region better than they.

(10) Small portable radios were used for communication between German officers and secret agents, some of whom were serving in the Norwegian forces.

(11) Much use was made of rockets and lights, sheets laid out in patterns, haystacks set afire, etc., to guide the air and parachute forces. It is the expressed opinion of the German pilots that, without these aids, most landings would have failed.

(12) At Bergen the consular staff, which had seized and held the city, was reinforced by troops who came ashore from merchant vessels where they had been concealed for several days. This also happened at Kristiansand, Harvik, Trondheim, and Stavanger. Each of these ships carried its own self-sufficient quota of all types of supplies. The trucks which were on board were already loaded and the anti-aircraft guns were accompanied by their crews and ammunition.

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(13) Orders and directions were placed on advertising billboards to assist advancing German columns.

(14) Arsenals and munitions factories, which were generally inadequately defended, were among the first places seized.

(15) Two weeks before the attack Quisling's agents ordered all anti-aircraft guns sent to Kongsberg to be overhauled. These were captured there before they could be fired.

f. France

German efforts in France were carried forward under the guise of friendship. German cultural agents arranged trips for German students into strategically important parts of France. German commercial planes had substitute pilots who were Luftwaffe officers in disguise. These ostensible students and pilots were not only on reconnaissance, but were assigned the mission of contacting French people with the idea of developing division and confusion if not the formation of an actual French Fifth Column. Germans in France promoted pacifism, encouraged antagonism between political groups, and exploited political quarrels. It is estimated that German agents in France had, when the war broke out, 1000 broadcasting sets of an efficient type small enough to be concealed in two suitcases.

When the war began, the German agents in France entered upon an effort to lower French morals. They promoted the idea that Britain was Germany's only enemy, and that France was a friend. They tried in every way to foster suspicion and distrust between French and British troops. When active warfare broke out, the work of the Fifth Column in France was similar to that in Belgium.

g. Russia

According to a recent examination of two deserters from the German Army, before the Russo-German Campaign began, German troop units were advised that complete enemy units would desert to them. The "Russian" units involved wore two crossed bayonets on the left side of the chest as a distinguishing emblem, and German tanks were forbidden under severe penalties to fire upon them. The examinees saw these units for the first time and learned that they were German pioneers. The latter stated that they had been landed in parachutes in Russian uniforms behind the Russian lines in order to blow up certain objectives.

3. THE JAPANESE FIFTH COLUMN IN MALAYA, 1941

In the current action in the Malaya Peninsula, Japanese Fifth

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Columnists have been active as follows:

- a. In indicating British airdromes by packing down paths in rice fields, by the use of strips of cloth or paint, by flashing lights, and by placing palm leaves in certain positions;
- b. By distributing military scrip and Thai currency, possibly counterfeits of British currency, among Malay natives;
- c. By providing Japanese troops with guides who have had long residence in the country through which the Japanese are operating;
- d. By drawing upon the pre-war espionage of local Japanese--a highly effective measure in locating British positions and communications.

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G-2/2657-220; No. 579 M.I.D.,W.D. 11:00 A.M., December 24, 1941.

SITUATION REPORTI. Pacific Theater.

Philippines: In the Lingayen area action continues. Our lines are holding. Japanese troops are probably ashore near Antimonan, southern Luzon. Japanese air activity was relatively high on the 23rd. Fighting continues in Mindanao. Hawaii: No new reports. Hong Kong: Still holds out. Malaya: Press reports indicate expected Japanese attack has begun in the west, with Japanese occupation of Kuala Krai in the east. Borneo: The Dutch announce successful attacks on Japanese ships off the coast. Burma: Heavy air raids on Rangoon West Coast: Continued Japanese submarine activity reported.

II. Eastern Theater.

Ground: No change in general situation on Russian front. Apparently, the front is beginning to harden with both sides reporting intense fighting, especially southwest of Tula.

III. Western Theater.

Air: All activity curtailed by weather.

IV. Middle Eastern Theater.

Ground: Libya: British forces continue occupation of Northern Cyrenaica. Axis forces are now concentrated in coastal area of Gulf of Sirte between Benghazi and Agedabis. Italian forces hold Benghazi and vicinity while German troops are operating in the area south of Benghazi.

Air: R.A.F. continues offensive action against aerodromes and road columns on Axis line of communication. Enemy activity slight.

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